HKEX

Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

Quarterly Report 2008

For the nine months ended 30 September

Stock Code: 388

CONTENTS

(Financial figures in this quarterly report are expressed in HKD unless otherwise stated)

FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2008	Nine months ended 30 Sept 2007	Change	**Three months ended 30 Sept 2008**	Three months ended 30 Sept 2007	Change
KEY MARKET STATISTICS						
Average daily turnover value on the Stock Exchange	**$79.3 billion**	$72.4 billion	10%	**$63.6 billion**	$97.7 billion	(35%)
Average daily number of derivatives contracts traded on the Futures Exchange	**199,436**	163,664	22%	**215,417**	197,874	9%
Average daily number of stock options contracts traded on the Stock Exchange	**232,545**	168,392	38%	**220,110**	240,131	(8%)

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change	**Unaudited Three months ended 30 Sept 2008 $'000**	Unaudited Three months ended 30 Sept 2007 $'000	Change
RESULTS						
Income	**5,847,235**	5,495,518	6%	**1,635,904**	2,338,580	(30%)
Operating expenses	**1,298,512**	1,028,493	26%	**529,569**	362,849	46%
Operating profit	**4,548,723**	4,467,025	2%	**1,106,335**	1,975,731	(44%)
Gain on disposal of an associate	–	206,317	(100%)	–	–	N/A
Share of profit of an associate	–	5,587	(100%)	–	–	N/A
Profit before taxation	**4,548,723**	4,678,929	(3%)	**1,106,335**	1,975,731	(44%)
Taxation	**(614,670)**	(666,549)	(8%)	**(146,688)**	(293,652)	(50%)
Profit attributable to shareholders	**3,934,053**	4,012,380	(2%)	**959,647**	1,682,079	(43%)
Basic earnings per share	**$3.67**	$3.76	(2%)	**$0.89**	$1.58	(44%)
Diluted earnings per share	**$3.65**	$3.72	(2%)	**$0.89**	$1.56	(43%)

	Unaudited at 30 Sept 2008	Audited at 31 Dec 2007	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($'000)	**6,054,558**	8,377,348	(28%)
Total assets * ($'000)	**66,009,115**	87,944,189	(25%)
Net assets per share #	**$5.64**	$7.83	(28%)

* The Group's total assets include the Margin Funds received from Participants on futures and options contracts.

Based on 1,073,612,204 shares as at 30 September 2008, being 1,074,873,846 shares issued and fully paid less 1,261,642 shares held for the Share Award Scheme (31 December 2007: 1,069,228,714 shares, being 1,070,285,346 shares issued and fully paid less 1,056,632 shares held for the Share Award Scheme)

BOARD AND COMMITTEES

Board of Directors

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* [1] GBS, JP

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

INEDs

CHA May-Lung, Laura* [2] SBS, JP
CHENG Mo Chi, Moses* [2] GBS, JP
CHEUNG Kin Tung, Marvin* GBS, JP
FAN Hung Ling, Henry* SBS, JP [Note]
FONG Hup* MH
KWOK Chi Piu, Bill [3]
LEE Kwan Ho, Vincent Marshall [3]
LOH Kung Wai, Christine
STRICKLAND, John Estmond GBS, JP
WEBB, David Michael [4]
WILLIAMSON, John Mackay McCulloch [5]
WONG Sai Hung, Oscar

Committees

Audit Committee

CHEUNG Kin Tung, Marvin (Chairman)
FONG Hup (Deputy Chairman)
CHENG Mo Chi, Moses [6]
LEE Kwan Ho, Vincent Marshall [6]
WEBB, David Michael [4]
WILLIAMSON, John Mackay McCulloch [5]

Executive Committee

ARCULLI, Ronald Joseph (Chairman) [7]
CHOW Man Yiu, Paul
FONG Hup
KWOK Chi Piu, Bill [6]
LEE Kwan Ho, Vincent Marshall [6]

Investment Advisory Committee

STRICKLAND, John Estmond (Chairman)
WONG Sai Hung, Oscar (Deputy Chairman)
CHA May-Lung, Laura [6]
SUN Tak Kei, David
WEBB, David Michael [4]
WILLIAMSON, John Mackay McCulloch [5]

Committees (continued)

Nomination Committee

ARCULLI, Ronald Joseph (Chairman) [6]
FAN Hung Ling, Henry [Note]
LEE Kwan Ho, Vincent Marshall [6]
STRICKLAND, John Estmond
WEBB, David Michael [4]
WONG Sai Hung, Oscar [5]

Panel Member Nomination Committee

CHA May-Lung, Laura (Chairman) [6]
FONG Hup
KWOK Chi Piu, Bill [6]
LEE Kwan Ho, Vincent Marshall [6]
WONG Sai Hung, Oscar

Remuneration Committee

ARCULLI, Ronald Joseph (Chairman) [6]
CHA May-Lung, Laura [6]
CHENG Mo Chi, Moses [6]
LEE Kwan Ho, Vincent Marshall [6]
LOH Kung Wai, Christine

Risk Management Committee [8]

ARCULLI, Ronald Joseph (Chairman) [7]
CHAN Ka-lok**
CHEUNG Kin Tung, Marvin
FONG Hup**
HUNG Pi Cheng, Benjamin** [9]
KWOK Chi Piu, Bill [6]
LAU Ying Pan, Edmond**
LUI Kei Kwong, Keith**

Corporate Social Responsibility Committee [10]

CHOW Man Yiu, Paul (Chairman) [11]
CHOW Lok Sum, Eddie [11]
CURLEY, Peter Joseph [11]
MAU Kam Shing, Joseph [11]
WONG Kwok Kuen, Alfred [11]
YEN Tai Mui, Brenda [11]

Company Secretary

MAU Kam Shing, Joseph

* Government Appointed Directors
** Appointed by the Financial Secretary
1 Re-appointed as Director on 24 April 2008 and as Chairman on 29 April 2008
2 Re-appointment effective 24 April 2008
3 Re-elected on 24 April 2008
4 Resigned on 15 May 2008
5 Appointment effective 18 June 2008
6 Re-appointment effective 25 April 2008
7 Re-appointment effective 29 April 2008
8 Established under Section 65 of the SFO
9 Appointment effective 20 January 2008
10 Established on 17 September 2008
11 Appointment effective 17 September 2008

Note: Mr Fan has taken a leave of absence from meetings of the Board and the Nomination Committee of HKEx from 22 October 2008 and will resume attending Board and committee meetings upon completion of the investigation into the affairs of the CITIC Pacific Limited (stock code: 00267) by the regulators. Mr Fan, also the managing director of CITIC Pacific Limited, is of the view that taking leave is to avoid any perception of conflict or potential conflict of interests during the said investigation.

Listing

Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers

On 18 July 2008, the Exchange published its Consultation Conclusion on Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers. Amendments have been made to the Main Board Listing Rules to accelerate the deadlines for the release of half-year results announcements and annual results announcements, covering accounting periods ending on or after 30 June 2010 and 31 December 2010 respectively.

WPIP

The Exchange and the SFC are in the advanced stages of finalising the joint review of the pilot scheme launched on 1 January 2008 for posting a WPIP on the HKEx website prior to the issue of an IPO prospectus with a view to codifying the requirement to post a WPIP in the Listing Rules by early 2009.

Introduction of Depositary Receipt Framework in Hong Kong

Following the launch of the HDR framework on 1 July 2008, the Exchange is in continued dialogue with market practitioners to understand the needs of the market and to provide practical guidance on operations to facilitate the listing of HDRs.

Reduction in Hard Copies of Issuer Documents

On 1 August 2008, SEHK announced the amendments to the Listing Rules to reduce the number of hard copies of documents that issuers are required to provide to the Exchange effective 1 September 2008. The rule amendments form part of the Exchange's initiative to enhance its corporate, social and environmental responsibilities.

2008 Combined Consultation Paper ("CCP")

The Exchange has finalised rule amendments for 15 of the 18 substantive policy and corporate governance issues included in the CCP published on 11 January 2008 and obtained the SFC's approval for most of these rule amendments. The Exchange plans to publish the consultation conclusions in respect of these issues in December 2008. The minor rule amendments set out in the CCP however, have become effective from 1 September 2008.

Joint Consultation Paper on Issue of Paper Application Forms with Electronic Prospectuses

The Exchange is analysing the 13 responses to the consultation conducted jointly by the SEHK and the SFC on the proposal to allow distribution of paper application forms for public offers at receiving banks without accompanying hard-copy prospectuses on the condition that electronic prospectuses are available online and other investor protection requirements are satisfied. The consultation conclusions are planned to be published in the second quarter of 2009.

Cash Market

Market Performance

In the first nine months of 2008, 36 companies were newly listed on the Main Board (including 12 that were transferred from GEM) and two on GEM. Meanwhile, six Main Board companies and two GEM companies (excluding the 12 transfers) were delisted. Total capital raised, including post-listing funds, reached $182.2 billion. As at 30 September 2008, 1,078 and 181 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $12,548.3 billion. In addition, there were 3,941 DWs, 759 CBBCs, seven REITs, 24 ETFs and 174 debt securities listed as at 30 September 2008. The average daily turnover in the first nine months of 2008 was about $79 billion on the Main Board and about $262 million on GEM.

Listing of Gold ETF

With the listing of the first gold ETF, SPDR Gold Trust, on the Stock Exchange on 31 July 2008, investors are provided with an additional channel to access the international gold market. Up to 30 September 2008, the average daily turnover of the SPDR Gold Trust was about $34 million.

Review of Opening and Closing Auction Mechanism in the Securities Market

The Board has approved the draft consultation paper on Review of Opening and Closing Auction Mechanism in the Securities Market, which includes a number of possible enhancements such as introducing random closing, allowing liquidity providers and securities market makers to participate in the auction sessions, enhancing the trade matching algorithm and applying control measures in the form of auction order price entry limits. The timing of publication will be kept in view until such time when the global market environment becomes more stable.

Short-Selling Restrictions

HKEx and the SFC are of the view that the current environment is not conducive to introducing any changes to the short-selling regime, such as the suspension of the tick rule and other short-selling restrictions.

Revision of Dealing Desk Monthly User Fee and Media Booth Licence Fee

In light of the rental increase upon renewal of the lease of the Trading and Exhibition Halls until 31 October 2011, the user fee for a dealing desk and the licence fee for a media booth in the Trading Hall will be revised to $6,500 per month effective 16 January 2009, and $90,000 per quarter effective November 2008 respectively.

Derivatives Market

Market Performance

In the first nine months of 2008, there were 78,620,535 options and futures contracts traded compared to 61,098,296 in the same period in 2007. In the third quarter of 2008, the total turnover of options and futures recorded a 15 per cent increase over that of the second quarter, to 27,002,646 contracts. The HSI futures achieved record daily turnover of 205,119 contracts on 26 August 2008.

Market Maker Obligations Revisions

Effective 2 July 2008, stock options market makers are required to respond to at least 200 quote requests per minute (compared to the previous requirement of at least 50 quote requests per minute), and to provide price quotes for 30 or more contracts on stock option classes under Liquidity Level 1, and 15 or more contracts on classes under Liquidity Level 2 (compared to the previous minimum of 60 contracts under Liquidity Level 1, and 30 under Liquidity Level 2).

Reduction in Transaction Levies for Mini Contract

On 11 July 2008, the SFC announced the reduction of the Commission Levy and Investor Compensation Levy for trading Mini H-shares Index futures contracts from $0.80 and $0.50 to $0.16 and $0.10 respectively, which are both one-fifth of the respective levies for the standard H-shares Index futures contracts. Corresponding amendments which took effect on 22 July 2008 were made to the Rules, Regulations and Procedures of the Futures Exchange.

Launch of Gold Futures

The SFC has approved our offer of Futures Exchange Trading Rights to members of the Chinese Gold & Silver Exchange Society or its designated affiliates to trade HKFE products, including the gold futures contracts which commenced trading on 20 October 2008.

Clearing

CCASS Participants to Receive Settlement Monies for CNS Transactions in Good Funds on T+2 Settlement Day

Effective 27 October 2008, CCASS Participants are provided with the option of receiving from HKSCC settlement monies for CNS transactions in good funds through the current intraday payment facility in the afternoon of T+2. This option helps eliminate Participants' overnight credit risk and improve the funding liquidity of the securities market at large.

HKSCC makes use of the cash prepayment monies received from CCASS Participants on T+2 to settle its money obligations to CCASS Participants by referring to their settled outstanding positions after completion of the third batch settlement run at around 2:30pm on T+2. If the cash prepayment monies received by HKSCC are insufficient to meet its money settlement obligations in full to all CCASS Participants, the relevant payments will be made on a pro-rata basis, and the outstanding balances will be settled under normal CCASS money settlement for CNS transactions through the overnight batch processing run of the Hong Kong Interbank Clearing Limited whereby CCASS Participants can only receive settlement monies for CNS transactions in good funds in the morning of T+3.

Participant Services

Participant Training and Market Education

In the third quarter of 2008, HKEx organised 17 Continuous Professional Training courses jointly with Hong Kong Securities Institute on the services and products in HKEx's clearing and Cash and Derivatives Markets. In addition, four courses on AMS/3 and HKATS were held to familiarise EPs with the operation of trading devices and the relevant rules and procedures.

For the Derivatives Market, 24 briefing sessions and seminars on our products were held in the third quarter of 2008, which attracted over 2,000 representatives from EPs. In addition, since September 2008, HKEx has sponsored a number of EPs to organise educational seminars and a series of gold futures marketing activities, such as online trading simulation games and online Question-and-Answer games on EPs' websites.

EP Recruitment

In the third quarter of 2008, three SEHK Participants and one HKFE Participant were newly accepted, resulting in a total of 13 new SEHK Participants and 10 new HKFE Participants recruited in the first nine months of 2008.

Promotional Activities

Promoting Hong Kong Listings

In July 2008, our Chairman led a delegation of about 45 senior executives from 30 Hong Kong intermediaries to visit the senior government officials of the Fujian Provincial Government and Xiamen Municipal Government. Two roundtable meetings were organised in Fuzhou and Xiamen to promote listing in Hong Kong.

In the third quarter of 2008, while participating in various promotional events in different provinces in the Mainland, HKEx organised five fund-raising workshops, roundtable meetings and seminars to introduce the Hong Kong listing requirements to a wide variety of companies in Guangzhou, Shanghai, Shenyang, Shenzhen and Wenzhou.

Targeting the natural resources market, we visited Sydney and Brisbane in July and August 2008 to participate in conferences, discussions with government officials and representatives from the Australian Stock Exchange, business councils and local intermediary firms, as well as meetings with potential companies to promote the Exchange. In August 2008, HKEx participated as a speaker at the "6th Annual Global Mining Investment Forum 2008" held in Hong Kong, which attracted about 80 representatives of mining companies from around the world. In September 2008, we also visited Toronto to explore the interest of mining and resources companies in listing in Hong Kong.

During the third quarter of 2008, HKEx continued the marketing efforts in Asia and visited Kaohsiung, Taichung, Taipei and Tokyo to attract more companies from different industries to list in Hong Kong.

Promoting HKEx's Derivatives Market

HKEx participated as an exhibitor at the "Asia Derivatives Conference 2008" organised by the Futures Industry Association in Tokyo from 17 to 19 September 2008. The conference was well attended with over 300 participants. The conference featured information sessions as well as panel discussions on topics such as risk controls and electronic trading. "Access to China Equity Derivatives" was the theme of HKEx's exhibit.

Promoting HKEx's Information Services

HKEx was the host sponsor of the "Asia Pacific Financial Information Conference" held from 20 to 22 October 2008 in Hong Kong. HKEx's Chief Executive delivered a keynote speech at the conference to introduce HKEx's information services. A number of HKEx executives also participated in panel discussions on matters facing the information industry. HKEx had an exhibition booth at the event which was well attended by over 200 delegates from overseas exchanges, financial information providers, financial institutions and market data vendors.

Information Services

Extended Discount Programme of Real-time Market Data for Mainland Users

HKEx has extended its discount programme for Mainland users of its real-time securities trading information to the end of 2010. Against the maximum regular monthly fee of $200, a discounted monthly fee of $80 and $120 is continued to be offered to retail end-users and corporate end-users respectively until the end of December 2009. Effective 1 January 2010, the respective discounted monthly fee will be adjusted to $100 and $160.

Despite the regular monthly subscription fee for the futures data package without price depth is up to $25 per device, a futures data package without price depth will continue to be offered together with the securities information package free of charge.

Twenty-nine information vendors are currently registered under the Mainland China Discount Programme.

List of Real-time Data Services Offered by Information Vendors Available on HKEx Website

To further enhance market transparency in respect of available services to end-users, HKEx has published the list of real-time data services offered by individual licensed information vendors as well as their key features on the HKEx website since the end of September 2008.

Proposal to Provide Free Basic Real-time Prices from HKEx's Markets on Websites

On 18 September 2008, HKEx issued a request for the expression of interest in developing a business model for the free dissemination of its basic real-time market prices on websites. A total of 34 responses were received and being analysed.

The implementation of a feasible business model for the provision of free, real-time basic HKEx market prices on websites could increase market transparency and raise the Hong Kong market's overall profile in the Mainland, and might help HKEx exploit a new revenue source.

Information Technology

Production System Stability and Reliability

All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to maintain 100 per cent operational system uptime in the nine months ended 30 September 2008 despite the significant market fluctuations experienced in September 2008. HKEx remains committed to upholding system stability and reliability.

System Capacity Planning and Upgrade

For the Cash Market, following the capacity and technology upgrades of AMS/3, CCASS/3 and MDF in the first quarter of this year, the market data dissemination rate was increased from 300 to 500 stocks per second effective 4 August 2008 to further reduce the latency of price updates on trading screens.

For the Derivatives Market, upon completion of the capacity and technology upgrade of DCASS and PRS on 19 July 2008, DCASS and PRS can now handle two million trades per day and 2,200 messages per second respectively. In addition, the bandwidth of all derivatives market circuits for EPs was upgraded from 256 kbps (kilobits per second) to one mbps (megabits per second) in September 2008 to enable HKATS to accommodate larger transaction throughput demand, thereby reducing the time required for transaction queries and downloading of clearing reports. Moreover, the maximum number of connections per network gateway was increased from five to 10 to allow EPs to consolidate the existing network gateways and to save costs.

In order to improve communication with EPs of the Derivatives Market during critical situations, for instance the occurrence of an unexpectedly large number of error trades, HKEx has enhanced the Market Message Window on Click workstation in HKATS to draw EPs' attention to important messages.

Obsolete Technology Replacement and Upgrade

Upon completion of the technology upgrade of the CCASS/3 middle-tier subsystem on 23 August 2008, HKEx has finished the entire technology and capacity upgrades to key IT systems supporting trading, clearing and settlement, and market data dissemination in the Cash and Derivatives Markets.

System Consolidation and Operational Efficiency

In the nine months ended September 2008, HKEx launched the upgraded version of SMARTS, which is used to monitor the trading activities of HKEx's Participants in relation to various Cash Market products. It also completed the development of the Participant Financial Resources Surveillance System to automate the processing of EPs' financial return data.

In mid-2008, we commenced the enhancement to the Participants Information System to support data import from the participant database maintained by the SFC. The enhancement will streamline HKEx's operational efficiency and help avoid dual filing by EPs of information updates.

Independent Review of Information Technology Governance ("ITG") and EDS

In the second quarter of 2008, HKEx commissioned an external consultant to perform an independent review of its ITG and EDS. The reviews, completed on 1 September 2008, confirmed that HKEx's ITG is in proper order and satisfactory controls are in place for EDS.

HKEx Data Centre and IT Office Consolidation

HKEx is relocating its HKATS/DCASS primary data centre and IT office from Central to Quarry Bay to further consolidate its IT infrastructure and various IT offices. The relocation is expected to be completed in mid-2009.

Risk Management

Risk Management Measures

During the third quarter of 2008, HKEx completed a review of HKCC's intra-day risk management arrangements and decided to strengthen the existing measures with the introduction of an automatic intra-day margin call specific to the collection of variation adjustments based on (i) the daily intra-day risk assessment after the end of the morning trading session of the HSI futures market; (ii) variation adjustments based on Participants' latest positions and the prevailing market price levels; and (iii) collection of variation adjustments from Participants who have breached certain thresholds. The new measures will be implemented before the end of 2008, subject to market readiness.

Default by Lehman Brothers Securities Asia Limited ("LBSA")

On 16 September 2008, the SFC issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in CCASS. There was serious concern expressed by executive management of HKEx previously and on the day of the issue of the restriction notice.

Following the issue of the SFC restriction notice, LBSA was declared a defaulter and its outstanding positions were closed out by HKSCC in accordance with the CCASS Rules. HKSCC incurred a loss of approximately $157 million (including costs and expenses) as a result of such closing-out. Treatment of the loss is set out in note 10(a) to the condensed consolidated accounts. We are in discussion with the SFC on the way forward in order to avoid similar incident in the future.

LBSA's Participantship in SEOCH was suspended on 16 September 2008. Since that day and in accordance with the restriction notice, all stock options positions of LBSA in its account remained unchanged, save and except those options contracts which expired in September and October 2008. There is no impact on the SEOCH Reserve Fund.

Default by Lehman Brothers Futures Asia Limited ("LBFA")

On 16 September 2008, the SFC issued a restriction notice on LBFA. Under the conditions of the SFC's restriction notice, LBFA was prohibited from carrying on all of the regulated activities for which they were licensed by the SFC. However, LBFA was permitted to take actions necessary to facilitate the closing and transferring out of existing futures and options contracts in HKFE pursuant to client instructions being confirmed. LBFA was initially granted one day by the SFC to manage the close-out process and that deadline was subsequently extended by the SFC for one additional day. LBFA closed part of its options and futures positions during this two-day period and continued to meet demands of margin and demands for variation adjustments by HKCC which involves an intraday mark-to-market process designed to supplement the margin collateral in hand to account for intraday fluctuations in HKCC Participants risk exposure levels. At 16:54 on 17 September 2008, LBFA failed to meet an intra-day demand for variation adjustments by HKCC and LBFA was promptly suspended by HKFE and HKCC. HKCC immediately assumed responsibility for the close-out which was initiated and concluded successfully before market closed on 18 September 2008 in accordance with the Rules and Procedures of HKCC. As there was sufficient margin collateral in place to cover the close-out costs of the LBFA default, no loss was incurred by HKCC. Provisional liquidators were appointed for LBFA by the High Court on 17 September 2008 and the HKFE and HKCC participantships of LBFA were deemed to have been revoked on the same day under the respective rules of HKFE and HKCC. Once all related costs and penalties have been accounted for, any surplus margin collateral and assets in control of HKCC will be refunded to LBFA's provisional liquidators/liquidators.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $61.9 billion on average for the nine months ended 30 September 2008 (30 September 2007: $40.3 billion).

As compared with 30 June 2008, the overall size of funds available for investment as at 30 September 2008 increased by 18 per cent or $8.4 billion to $55.7 billion (30 June 2008: $47.3 billion). Details of the asset allocation of the investments as at 30 September 2008 against those as at 30 June 2008 are set out below.

	Investment Fund Size $ billion		**Bonds**		**Cash or Bank Deposits**		**Global Equities**	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**12.0**	10.0	**42%**	48%	**56%**	50%	**2%**	2%
Margin Funds	**42.2**	35.8	**39%**	42%	**61%**	58%	**0%**	0%
Clearing House Funds	**1.5**	1.5	**28%**	26%	**72%**	74%	**0%**	0%
Total	**55.7**	47.3	**39%**	43%	**61%**	57%	**0%**	0%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities and mutual funds held under the Corporate Funds ($0.2 billion as at 30 September 2008 and 30 June 2008), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2008 ($55.5 billion) and 30 June 2008 ($47.1 billion) were as follows:

	Investment Fund Size $ billion		**Overnight**		**>Overnight to 1 month**		**>1 month to 1 year**		**>1 year to 3 years**		**> 3 years**	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**11.8**	9.8	**49%**	23%	**4%**	3%	**33%**	52%	**10%**	16%	**4%**	6%
Margin Funds	**42.2**	35.8	**33%**	36%	**28%**	21%	**39%**	41%	**0%**	2%	**0%**	0%
Clearing House Funds	**1.5**	1.5	**67%**	71%	**15%**	5%	**18%**	24%	**0%**	0%	**0%**	0%
Total	**55.5**	47.1	**38%**	35%	**22%**	17%	**37%**	42%	**2%**	5%	**1%**	1%

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 September 2008, had a weighted average credit rating of Aa2 (30 June 2008: Aa1) and a weighted average maturity of 0.6 year (30 June 2008: 0.7 year). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The overall risk, as measured by the VaR methodology, during the third quarter of 2008 and the second quarter of 2008 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Jul-Sept	Apr-Jun	**Jul-Sept**	Apr-Jun	**Jul-Sept**	Apr-Jun
Corporate Funds	**16.6**	17.7	**18.3**	18.8	**15.0**	16.9
Margin Funds	**19.7**	21.0	**23.5**	24.2	**17.8**	17.1
Clearing House Funds	**0.7**	0.6	**0.8**	0.9	**0.6**	0.2

Details of the Group's net investment income are set out in the Income section under the Financial Review and note 6 to the condensed consolidated accounts of this quarterly report.

Overall Performance

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000
RESULTS		
Income:		
Income affected by market turnover	**3,701,879**	3,461,015
Stock Exchange listing fees	**541,744**	474,214
Income from sale of information	**509,960**	466,526
Net investment income	**728,259**	774,248
Gain on disposal of properties	**68,641**	–
Other income	**296,752**	319,515
	5,847,235	5,495,518
Operating expenses	**1,298,512**	1,028,493
Operating profit	**4,548,723**	4,467,025
Gain on disposal of an associate	**–**	206,317
Share of profit of an associate	**–**	5,587
Profit before taxation	**4,548,723**	4,678,929
Taxation	**(614,670)**	(666,549)
Profit attributable to shareholders	**3,934,053**	4,012,380

The Group recorded a profit attributable to shareholders of $3,934 million for the first nine months of 2008 (first quarter: $1,650 million; second quarter: $1,324 million; third quarter: $960 million) compared with $4,012 million for the same period in 2007 (2007 first quarter: $922 million; second quarter: $1,408 million; third quarter: $1,682 million).

As compared with the same period last year, profit attributable to shareholders for the nine months ended 30 September 2008 decreased marginally as the higher turnover-related income resulting from an increase in the level of activities in the Cash and Derivatives Markets was more than offset by higher operating expenses during the period and the gain on disposal of an associate in 2007 which did not repeat in 2008.

Total operating expenses increased by 26 per cent during the period mainly due to higher staff costs, depreciation charge, information technology and computer maintenance expenses as well as a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision relating to Lehman Brothers Group of $159,151,000).

Income

(A) Income Affected by Market Turnover

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Trading fees and trading tariff	**2,208,517**	1,962,937	13%
Clearing and settlement fees	**1,092,317**	1,014,759	8%
Depository, custody and nominee services fees	**401,045**	483,319	(17%)
Total	**3,701,879**	3,461,015	7%

The increase in trading fees and trading tariff was mainly due to the higher market turnover of the Cash and Derivatives Markets in the first nine months of 2008 against that of the corresponding period last year.

Clearing and settlement fees were derived predominantly from Cash Market transactions. The increase in clearing and settlement fees in 2008 was mainly due to the higher market turnover of the Cash Market. Despite being mostly ad valorem fees, clearing and settlement fees are affected by the volume of settlement instructions and subject to a minimum and a maximum fee per transaction and may not always move exactly with changes in the Cash Market turnover. In 2008, clearing and settlement fees did not increase linearly with the Cash Market turnover as a higher proportion of the value of transactions was subject to the maximum fee and a lower proportion of the value of transactions was subject to the minimum fee.

Depository, custody and nominee services fees dropped mainly due to a decrease in electronic-IPO handling fees as the number of newly listed companies fell. Similarly, scrip fees also decreased as the fees from the first book close of newly listed companies dropped. The decrease was partly offset by a rise in dividend collection fees and stock custody fees. Other than electronic-IPO handling fees, the other fees are generally influenced by the level of Cash Market activity but do not move proportionately with changes in the Cash Market turnover as they vary mostly with the number of board lots rather than the value or turnover of the securities concerned and many are subject to a maximum fee. Moreover, scrip fees are only chargeable on the net increase in individual Participants' aggregate holdings of the securities from one book closing date to the next, and thus are unusually large on the first book closing date after a new listing.

Key Market Indicators

	Nine months ended 30 Sept 2008	Nine months ended 30 Sept 2007	Change
Average daily turnover value on the Stock Exchange	**$79.3 billion**	$72.4 billion	10%
Average daily number of derivatives contracts traded on the Futures Exchange	**199,436**	163,664	22%
Average daily number of stock options contracts traded on the Stock Exchange	**232,545**	168,392	38%

(B) Stock Exchange Listing Fees

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Annual listing fees	**257,828**	225,202	14%
Initial and subsequent issue listing fees	**279,924**	244,583	14%
Others	**3,992**	4,429	(10%)
Total	**541,744**	474,214	14%

The increase in annual listing fees was attributable to the higher number of listed securities. The rise in initial listing and subsequent issue listing fees was due to the increase in the number of newly listed CBBCs.

Key Drivers for Annual Listing Fees

	As at 30 Sept 2008	As at 30 Sept 2007	Change
Number of companies listed on Main Board	**1,078**	1,018	6%
Number of companies listed on GEM	**181**	192	(6%)
Total	**1,259**	1,210	4%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Nine months ended 30 Sept 2008	Nine months ended 30 Sept 2007	Change
Number of newly listed DWs	**3,951**	4,048	(2%)
Number of newly listed CBBCs	**2,296**	185	1,141%
Number of newly listed companies on Main Board	**36**	52	(31%)
Number of newly listed companies on GEM	**2**	–	N/A
Total equity funds raised on Main Board	**$175.7 billion**	$319.0 billion	(45%)
Total equity funds raised on GEM	**$6.5 billion**	$13.7 billion	(53%)

(C) Income from Sale of Information

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Income from sale of information	**509,960**	466,526	9%

Income from sale of information rose as demand for information increased in tandem with the activities in the Cash and Derivatives Markets.

(D) Net Investment Income

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Gross investment income	**803,057**	1,245,500	(36%)
Interest expenses	**(74,798)**	(471,252)	(84%)
Net investment income	**728,259**	774,248	(6%)

The average amount of funds available for investment is set out below.

	Nine months ended 30 Sept 2008 $ billion	Nine months ended 30 Sept 2007 $ billion	Change
Corporate Funds	**9.7**	7.1	37%
Margin Funds	**50.5**	30.9	63%
Clearing House Funds	**1.7**	2.3	(26%)
Total	**61.9**	40.3	54%

The increase in the average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

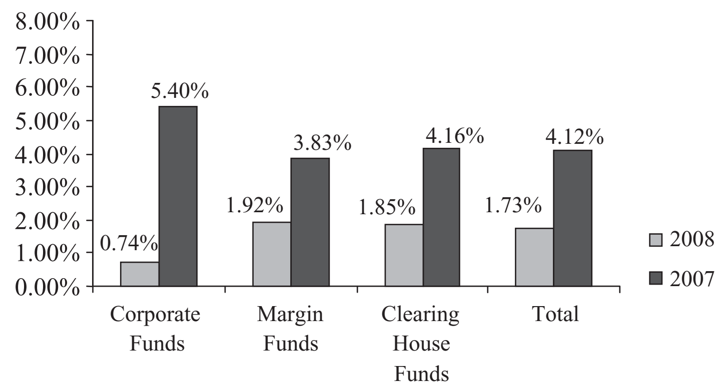
The significant rise in the average amount of Margin Funds available for investment during the period was primarily caused by the increased open interest in futures and options contracts and the higher margin rate required per contract.

The lower average amount of Clearing House Funds was mainly due to a decrease in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The lower net investment income was primarily due to fair value losses of Corporate Fund investments, reflecting market movements, as opposed to the fair value gains of Corporate Fund investments in the corresponding period of 2007, and the drop in interest rates. The decrease in net investment income was partly offset by the increase in net interest income of Margin Funds arising from an increase in the fund size during the first nine months of 2008 as compared with that of the corresponding period in 2007.

The annualised gross return on funds available for investment during the first nine months is set out below.

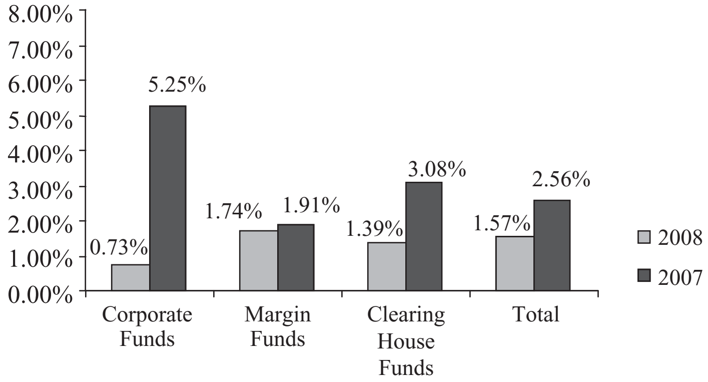
Annualised Gross Return on Funds Available for Investment



The gross return for all funds was brought down by the decrease in interest rates. The return of the Corporate Funds was also adversely affected by fair value losses of the Corporate Fund investments, reflecting market movements. The lower return of Margin Funds was also attributable to an increase in the proportion of Margin Funds denominated in Japanese Yen which generated a very low return.

The annualised net return on funds available for investment after the deduction of interest expenses during the first nine months is set out below.

Annualised Net Return on Funds Available for Investment



The net return of the Margin Funds did not drop significantly from last year as the decrease in gross return was mostly offset by the drop in the interest rate (savings rate) payable to margin depositors. The decrease in net return on the Clearing House Fund investments was less than the decrease in gross return as a lower proportion of Clearing House Fund contributions was eligible for interest in 2008.

Details of the investment portfolio are set out in the Treasury section under the Business Review.

(E) Gain on Disposal of Properties

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Gain on disposal of properties	**68,641**	–	N/A

The Group sold an investment property and one of the leasehold properties during the first nine months of 2008 generating a gain of $69 million.

(F) Other Income

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Network, terminal user, dataline and software sub-license fees	**217,359**	204,351	6%
Participants' subscription and application fees	**25,722**	25,574	1%
Brokerage on direct IPO allotments	**5,216**	58,610	(91%)
Trading booth user fees	**7,162**	7,216	(1%)
Fair value gain of an investment property	**–**	1,100	(100%)
Accommodation income	**19,891**	8,940	122%
Sales of Trading Right	**6,835**	2,000	242%
Miscellaneous income	**14,567**	11,724	24%
Total	**296,752**	319,515	(7%)

Network, terminal user, dataline and software sub-license fees rose mainly due to an increase in open gateway user fees but the increase was partly offset by the decrease in sales of additional throttle.

Brokerage on direct IPO allotments fell sharply as the number of newly listed companies decreased, in particular larger IPOs.

Accommodation income (ie, retention interest charged on securities deposited by Participants as alternatives to cash deposits of the Margin Funds) increased mainly due to the increase in utilisation of non-cash collateral by Participants to meet their margin obligations.

Operating Expenses

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Staff costs and related expenses	**650,208**	605,801	7%
Information technology and computer maintenance expenses	**179,654**	151,260	19%
Premises expenses	**107,829**	98,826	9%
Product marketing and promotion expenses	**12,384**	10,540	17%
Legal and professional fees	**18,513**	14,150	31%
Depreciation	**79,714**	59,984	33%
Other operating expenses	**250,210**	87,932	185%
Total	**1,298,512**	1,028,493	26%

Staff costs and related expenses increased by $44 million, primarily due to the increase in salary costs and provident fund contributions as a result of the increase in headcount and salary adjustments in 2008.

Information technology and computer maintenance expenses of the Group, after excluding services and goods directly consumed by the Participants of $72 million (2007: $52 million), were $108 million (2007: $99 million). The increase in costs of services and goods consumed by the Group was mainly due to higher CCASS/3 maintenance costs and line rentals for the Designated Issuer Website. The increase in costs of services and goods directly consumed by Participants was primarily due to the increase in AMS/3 line rentals and maintenance costs incurred by the Participants. Costs of services and goods consumed by Participants were mostly recovered from the Participants and the income was included as part of the network, terminal user, dataline and software sub-license fees under Other Income.

Legal and professional fees rose due to higher fees incurred for listing-related matters and professional fees incurred for the review of information technology systems but the increase was partly offset by the one-off consultancy fees for the feasibility study of trading commodities derivatives and emission-related products in Hong Kong in 2007.

Depreciation increased as the capacity upgrade of certain trading and clearing systems was completed during the period.

Other operating expenses rose primarily due to a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision for impairment losses of $159,151,000 relating to Lehman Brothers Group arisen in 2008).

Gain on Disposal of an Associate

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Gain on disposal of an associate	–	206,317	(100%)

In April 2007, the Group disposed of all of its 30 per cent interest in Computershare Hong Kong Investor Services Limited, as the Board considered that the sale represented a good opportunity for the Group to realise the gain on the associate.

Share of Profit of an Associate

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Share of profit of an associate	–	5,587	(100%)

As the Group disposed of its entire interest in the associate in April 2007, there was no share of profit in 2008.

Taxation

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	Change
Taxation	**614,670**	666,549	(8%)

The decrease in taxation was mainly attributable to the cut in Hong Kong Profits Tax rate from 17.5 per cent to 16.5 per cent.

Comparison of 2008 Third Quarter Performance with 2008 Second Quarter Performance

	Unaudited Three months ended 30 Sept 2008 $'000	Unaudited Three months ended 30 Jun 2008 $'000
Income:		
Income affected by market turnover:		
Trading fees and trading tariff	**655,035**	687,372
Clearing and settlement fees	**317,457**	354,053
Depository, custody and nominee services fees	**104,950**	231,876
	1,077,442	1,273,301
Stock Exchange listing fees	**185,784**	164,848
Income from sale of information	**155,541**	169,358
Net investment income	**138,308**	221,881
Other income	**78,829**	97,299
	1,635,904	1,926,687
Operating expenses	**529,569**	386,384
Profit before taxation	**1,106,335**	1,540,303
Taxation	**(146,688)**	(215,638)
Profit attributable to shareholders	**959,647**	1,324,665

Profit attributable to shareholders decreased from $1,324 million in the second quarter of 2008 to $960 million in the third quarter of 2008. The fall in profit was mainly due to lower income driven by weaker investor sentiment, lower net investment income and higher operating expenses. The decrease in profit was partly offset by lower taxation charge.

Trading fees and trading tariff, clearing and settlement fees and income from sale of information fell in tandem with the activities in the Cash Market. Depository, custody and nominee services fees dropped significantly due to seasonal fluctuations. Stock Exchange listing fees increased slightly as the number of newly listed DWs and CBBCs increased during the third quarter compared with the second quarter. Other income declined due to lower sales of additional throttle during the third quarter.

Net investment income dropped due to the higher fair value losses of Corporate Fund investments due to market movements and the decrease in net interest income due to the lower average fund size during the third quarter.

Key Market Indicators

	Three months ended 30 Sept 2008	Three months ended 30 Jun 2008	Change
Average daily turnover value on the Stock Exchange	**$63.6 billion**	$76.1 billion	(16%)
Average daily number of derivatives contracts traded on the Futures Exchange	**215,417**	176,748	22%
Average daily number of stock options contracts traded on the Stock Exchange	**220,110**	212,191	4%

Operating expenses increased by 37 per cent primarily due to a provision for impairment losses of trade receivables from defaulting Participants (in particular the provision for impairment losses of $159,151,000 relating to Lehman Brothers Group arisen in the third quarter).

Taxation decreased mainly attributable to a decrease in operating profit.

Working Capital

Working capital decreased by $2,312 million or 31 per cent to $5,104 million as at 30 September 2008 (31 December 2007: $7,416 million). The decrease was primarily due to the payment of the 2007 final dividend of $3,646 million and the 2008 interim dividend of $2,673 million and $32 million of shares purchased for the Share Award Scheme, but the decrease was partly offset by the profit generated during the first nine months of $3,934 million and $66 million of proceeds from shares issued under the Share Option Schemes and the increase in other working capital of $39 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 34(a)(i) to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 31 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2007

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2007.

It is the Group's plan to declare dividends only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2008 (third quarter of 2007: $Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of income and operating expenses may vary from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2008 in conjunction with HKEx's external auditor.

Management has appointed the external auditor to carry out certain agreed-upon procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2008.

Organisational Changes

Following the appointments of Messrs Kevin T King and Pont S K Chiu in the first half of this year, further organisational changes took effect on 1 September 2008 as part of our succession plan and to help improve our competitive advantages and better position ourselves for long-term sustainable growth.

Mr Peter J Curley was appointed the Head of Corporate Strategy after his completion of the Sloan Fellows Programme at the Massachusetts Institute of Technology during his one-year leave of absence. Mr Curley is now responsible for identifying and developing strategic opportunities for HKEx, and will formulate a medium-long term strategy for HKEx's emissions trading.

Together with Mr Curley, Mr Bryan P K Chan, Head of Information Services, became members of the Senior Management Committee ("SMC"), bringing the total number of members to 12. To improve the decision-making process, all business and strategic functions are now represented in the SMC.

The updated organisational chart is posted on the HKEx website.

HKEx Corporate Website Revamp

A consultant has been selected for the HKEx corporate website revamp project which includes reviewing the HKEx website, making recommendations for improvements and implementing recommendations as approved by HKEx. HKEx aims to benchmark its website with local and international best practices and to deliver a revamped website comparable to the best of its peers. The revamped website is anticipated to be launched in the third quarter of 2009.

Employees' Pay Review

Following the completion of a review of the remuneration structures and packages of 23 executives in Grades 1 and 2 in 2007, Towers Perrin, the independent consultant, was further retained to conduct a similar review this year for another 20 executives in Grade 3 to ensure proper alignment of the remuneration structures and packages for senior executives. The review was completed in October and the employees' pay review for 2008/2009 will take into account the consultant's recommendations.

Share Option Schemes

Details of the Share Option Schemes are set out in note 25(b) to the condensed consolidated accounts of this quarterly report. The share options granted under the two schemes, which remained outstanding as at 30 September 2008 are set out below.

Pre-Listing Scheme

		Number of Shares Issuable Under the Options				
Date of Grant	Exercise Price ($)	As at 1 Jan 2008	Issued upon Subscription during the nine months ended 30 Sept 2008 (Note 1)	Lapsed during the nine months ended 30 Sept 2008	As at 30 Sept 2008	Exercise Period (Note 2)
Employees (Note 3)						
20 Jun 2000	6.88	379,000	249,000	–	130,000	6 Mar 2002 – 30 May 2010

No further options can be, or have been, granted under the Pre-Listing Scheme as from 27 June 2000, the date of listing of HKEx shares on the Exchange.

Post-Listing Scheme

		Number of Shares Issuable Under the Options				
Date of Grant	**Exercise Price** ($)	**As at 1 Jan 2008**	**Issued upon Subscription during the nine months ended 30 Sept 2008** (Note 4)	**Lapsed during the nine months ended 30 Sept 2008**	**As at 30 Sept 2008**	**Exercise Period** (Note 5)
Executive Director (Note 6)						
2 May 2003	8.28	1,240,000	1,240,000	–	–	2 May 2005 – 1 May 2013
Employees (Note 3)						
14 Aug 2003	12.45	273,500	273,500	–	–	14 Aug 2005 – 13 Aug 2013
15 Jan 2004	17.30	547,000	273,500	–	273,500	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	16.96	2,827,500	1,243,500	53,000	1,531,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	125,000	25,000	–	100,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	4,076,500	1,284,000	118,000	2,674,500	26 Jan 2007 – 25 Jan 2015

Since the adoption of the Share Award Scheme on 14 September 2005, no further options have been granted under the Post-Listing Scheme.

No options granted under the Share Option Schemes were cancelled during the nine months ended 30 September 2008.

Notes:

1. The weighted average closing price immediately before the dates on which the options were exercised was $138.39.
2. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
3. Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.
4. The weighted average closing price immediately before the dates on which the options were exercised was $140.55.
5. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.
6. The option was granted to Mr Paul M Y Chow, an Executive Director and the Chief Executive.

Share Award Scheme

Details of the Share Award Scheme and the awards are set out in note 25(c) to the condensed consolidated accounts of this quarterly report.

Corporate Governance

The Government Appointed Directors and the Chief Executive in his capacity as a Director are not subject to election or re-election by Shareholders as governed by Section 77 of the SFO and HKEx's Articles of Association respectively. Save as disclosed in this paragraph, HKEx has complied with all the code provisions and, where appropriate, adopted the recommended best practices, as set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules throughout the review period.

As of 31 August 2008, HKEx's Global Rating and Home Market Rating assigned by GovernanceMetrics International, a corporate governance ratings and research firm, were 7.5 and 10.0 respectively out of the maximum of 10.0.

On 30 October 2008, HKEx was named as the best company in Hong Kong, in terms of Corporate Governance in The Asset Magazine's annual Corporate Governance Index 2008.

On 3 November 2008, HKEx received the Gold Award in the "General" Category of the 2008 HKMA Best Annual Reports Awards organised by The Hong Kong Management Association.

CSR

In April 2008, HKEx commissioned the Business Environment Council ("BEC") to conduct a review of its CSR measures and a green audit of its operations to identify areas where HKEx could improve its existing operations in relation to their environmental and social impact, and to suggest additional CSR initiatives for HKEx's consideration. The HKEx Board is supportive of BEC's recommendations in the review report on further enhancing HKEx's CSR measures and developing appropriate sustainable CSR practices. The Board believes that further development of HKEx's CSR would help promote the Company's good corporate citizenship and increase its awareness of the importance of CSR.

On 17 September 2008, HKEx established a CSR Committee, chaired by the Chief Executive, to oversee the further development of CSR within the Company, and retained BEC as its CSR consultant. The member list and terms of reference of the CSR Committee are posted on the HKEx website.

To contribute to environmental protection, the Quarterly Report for the nine months ended 30 September 2008 is also available on the HKEx website at www.hkex.com.hk under the "Investors Relations Corner".

PROSPECTS

What started as the sub-prime crisis over a year ago not only hit the US financial institutions and market, but also many of their European counterparts. The speed and force were such that initial measures by governments and central banks appeared inadequate. Such measures were not given a chance to stabilise financial markets globally as the lack of confidence and liquidity persisted. What is much needed is to restore calm in the current climate of fear and panic.

Despite our sound fundamentals and foundation, Hong Kong has not been spared as the local stock market responded vigorously. The HSI lost in total 1720 points within three days between 16 and 18 September 2008, and regained 1695 points on the following day. Similar fluctuations were observed in October 2008. As at the end of September 2008, Hong Kong's market capitalisation had fallen 37 per cent against that as at 30 September last year and 23 per cent, as compared to that as at the last quarter end. The average daily turnover for the third quarter dropped by 16 per cent and 36 per cent against that for the second and first quarters of this year respectively. Given the robust market in the first quarter of this year, the average daily turnover for the nine months ended 30 September 2008 was still 10 per cent higher than that for the corresponding period last year.

While governments and major central banks across the world are introducing unprecedented massive rescue plans to avoid failure of their respective financial markets, the Government and local market regulators, including HKEx, are on vigilant guard and are closely monitoring market developments. In HKEx, stringent risk management measures are in place to ensure the provision of an open, orderly and fair marketplace for trading and clearing of all exchange products to help reinforce investors' confidence in the Hong Kong financial markets. As one of the signatories to the open statement of the World Federation of Exchanges issued on 12 October 2008, HKEx, among other global exchanges, affirmed to remain open throughout this period of crisis and to fulfil its role as a continuous, transparent and open market for establishing and disseminating prices for exchange-traded instruments. Nonetheless, investors should consider carefully their position before making any investment decisions and to implement prudent risk management measures especially when uncertainty and volatility remain.

Worsening sentiment in the secondary market, both in Hong Kong and abroad, has an adverse impact in recent months on IPOs on the Exchange and the number of IPO applications being filed, despite a total of 127 IPO applications received in the first nine months of 2008 (which is higher than the total number of IPO applications received in a year since 2005). In light of a tight credit environment, going public remains a development strategy of many companies. While the annual growth of Asia, in particular China, is forecast at a relatively higher percentage than the rest of the world, HKEx will continue its activities to promote listing in Hong Kong in the form of shares or HDRs to potential issuers, especially those from the Mainland and the other parts of Asia.

As part of our on-going effort to better serve the market, we are studying the feasibility of providing free basic real-time market prices on websites. We will also expand our products and services to strengthen our competitiveness in the longer term. We re-launched gold futures on 20 October 2008 and plan for the trading in emissions-related products in the future.

HKEx was recently ranked as one of Hong Kong's five most-admired companies in terms of financial reputation in a reader's survey by *The Wall Street Journal Asia*. To further promote the Company's good corporate citizenship, we have a CSR Committee to lead the implementation of CSR policies within HKEx. I look forward to informing you and our other stakeholders in the near future, the more systematic approach to further develop HKEx's CSR.

The challenge ahead is stabilisation of the global financial markets and once this is done, we need to turn our attention to what can be done to avoid a massive economic contraction. To do so we should focus on the big picture whilst we address the numerous issues that may arise.

ARCULLI, Ronald Joseph
Chairman

Hong Kong, 12 November 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Unaudited Nine months ended 30 Sept 2008 $'000**	Unaudited Nine months ended 30 Sept 2007 $'000	**Unaudited Three months ended 30 Sept 2008 $'000**	Unaudited Three months ended 30 Sept 2007 $'000
INCOME	2				
Trading fees and trading tariff	4	**2,208,517**	1,962,937	**655,035**	888,118
Stock Exchange listing fees	5	**541,744**	474,214	**185,784**	180,214
Clearing and settlement fees		**1,092,317**	1,014,759	**317,457**	443,485
Depository, custody and nominee services fees		**401,045**	483,319	**104,950**	174,896
Income from sale of information		**509,960**	466,526	**155,541**	190,840
Net investment income	6	**728,259**	774,248	**138,308**	321,508
Gain on disposal of properties	21	**68,641**	–	–	–
Other income	7	**296,752**	319,515	**78,829**	139,519
	3	**5,847,235**	5,495,518	**1,635,904**	2,338,580
OPERATING EXPENSES					
Staff costs and related expenses	8	**650,208**	605,801	**198,222**	219,253
Information technology and computer maintenance expenses	9	**179,654**	151,260	**58,128**	50,563
Premises expenses		**107,829**	98,826	**38,107**	33,251
Product marketing and promotion expenses		**12,384**	10,540	**2,747**	3,432
Legal and professional fees		**18,513**	14,150	**9,663**	9,760
Depreciation		**79,714**	59,984	**29,776**	17,528
Other operating expenses	10	**250,210**	87,932	**192,926**	29,062
	3	**1,298,512**	1,028,493	**529,569**	362,849
OPERATING PROFIT	3	**4,548,723**	4,467,025	**1,106,335**	1,975,731
GAIN ON DISPOSAL OF AN ASSOCIATE	3/11	–	206,317	–	–
SHARE OF PROFIT OF AN ASSOCIATE	3	–	5,587	–	–
PROFIT BEFORE TAXATION	3	**4,548,723**	4,678,929	**1,106,335**	1,975,731
TAXATION	12	**(614,670)**	(666,549)	**(146,688)**	(293,652)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	28	**3,934,053**	4,012,380	**959,647**	1,682,079
Basic earnings per share	14(a)	**$3.67**	$3.76	**$0.89**	$1.58
Diluted earnings per share	14(b)	**$3.65**	$3.72	**$0.89**	$1.56

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Nine months ended 30 Sept 2008 $'000	Unaudited Nine months ended 30 Sept 2007 $'000	**Unaudited Three months ended 30 Sept 2008 $'000**	Unaudited Three months ended 30 Sept 2007 $'000
Profit attributable to shareholders	**3,934,053**	4,012,380	**959,647**	1,682,079
Other comprehensive income:				
Available-for-sale financial assets:				
Change in fair value	**67,190**	20,416	**61,637**	46,370
Realisation of change in fair value on maturity	**(58,201)**	(10,188)	**(16,851)**	(5,953)
Less: Reclassification adjustment:				
Gains included in profit or loss on disposal	**(4,678)**	–	**–**	–
Deferred tax	**(531)**	(1,451)	**(7,391)**	(3,708)
	3,780	8,777	**37,395**	36,709
Cash flow hedges:				
Fair value gains of hedging instruments	**–**	132	**–**	–
Less: Reclassification adjustments:				
Gains reclassified to profit or loss as information technology and computer maintenance expenses	**–**	(70)	**–**	–
Gains reclassified to profit or loss as net investment income	**–**	(62)	**–**	–
	–	–	**–**	–
Leasehold buildings:				
Change in valuation	**–**	(44)	**–**	–
Deferred tax arising from change in valuation	**–**	7	**–**	–
	–	(37)	**–**	–
Less: Reclassification adjustment:				
Share of other comprehensive income of an associate reclassified to profit or loss on disposal	**–**	(58)	**–**	–
Other comprehensive income attributable to shareholders, net of tax	**3,780**	8,682	**37,395**	36,709
Total comprehensive income attributable to shareholders	**3,937,833**	4,021,062	**997,042**	1,718,788

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
			Other comprehensive income				
	Share capital, share premium and shares held for Share Award Scheme (note 24) $'000	**Employee share-based compensation reserve (note 25) $'000**	**Revaluation reserves (note 26) $'000**	**Hedging reserve $'000**	**Designated reserves (note 27) $'000**	**Retained earnings (note 28) $'000**	**Total equity $'000**
At 1 Jan 2008	**1,288,652**	**49,669**	**56,036**	**–**	**694,853**	**6,288,138**	**8,377,348**
Total comprehensive income attributable to shareholders	**–**	**–**	**3,780**	**–**	**–**	**3,934,053**	**3,937,833**
2007 final dividend at $3.40 per share	**–**	**–**	**–**	**–**	**–**	**(3,646,159)**	**(3,646,159)**
2008 interim dividend at $2.49 per share	**–**	**–**	**–**	**–**	**–**	**(2,673,375)**	**(2,673,375)**
Unclaimed dividend forfeited	**–**	**–**	**–**	**–**	**–**	**2,566**	**2,566**
Shares issued under employee share option schemes	**66,322**	**–**	**–**	**–**	**–**	**–**	**66,322**
Shares purchased for Share Award Scheme	**(32,494)**	**–**	**–**	**–**	**–**	**–**	**(32,494)**
Vesting of shares of Share Award Scheme	**347**	**(280)**	**–**	**–**	**–**	**(67)**	**–**
Employee share-based compensation benefits	**–**	**22,517**	**–**	**–**	**–**	**–**	**22,517**
Transfer of reserves	**18,728**	**(18,728)**	**(3,155)**	**–**	**17,108**	**(13,953)**	**–**
At 30 Sept 2008	**1,341,555**	**53,178**	**56,661**	**–**	**711,961**	**3,891,203**	**6,054,558**

	Unaudited						
			Other comprehensive income				
	Share capital, share premium and shares held for Share Award Scheme $'000	Employee share-based compensation reserve $'000	Revaluation reserves $'000	Hedging reserve $'000	Designated reserves $'000	Retained earnings $'000	Total equity $'000
At 1 Jan 2007, as previously reported	1,200,093	52,119	10,569	–	668,262	3,326,543	5,257,586
Effect of reclassification of Compensation Fund Reserve Account ("CFRA")	–	–	–	–	(40,446)	40,446	–
At 1 Jan 2007, as restated	1,200,093	52,119	10,569	–	627,816	3,366,989	5,257,586
Total comprehensive income attributable to shareholders	–	–	8,682	–	–	4,012,380	4,021,062
2006 final dividend at $1.19 per share	–	–	–	–	–	(1,270,266)	(1,270,266)
2007 interim dividend at $1.79 per share	–	–	–	–	–	(1,912,193)	(1,912,193)
Unclaimed dividend forfeited	–	–	–	–	–	1,944	1,944
Shares issued under employee share option schemes	57,007	–	–	–	–	–	57,007
Shares purchased for Share Award Scheme	(4,879)	–	–	–	–	–	(4,879)
Employee share-based compensation benefits	–	17,970	–	–	–	–	17,970
Share of reserve of an associate:							
– during the period	–	47	–	–	–	–	47
– eliminated through disposal of associate	–	(560)	–	–	–	–	(560)
Transfer of reserves	16,278	(16,278)	–	–	52,422	(52,422)	–
At 30 Sept 2007, as restated	1,268,499	53,298	19,251	–	680,238	4,146,432	6,167,718

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited at 30 Sept 2008 $'000**	Audited at 31 Dec 2007 $'000
NON-CURRENT ASSETS			
Fixed assets	15	**303,659**	317,065
Lease premium for land		**60,326**	60,708
Clearing House Funds	16	**1,430,375**	2,192,204
Available-for-sale financial assets	17	**–**	25,270
Deferred tax assets		**4,584**	3,610
Other financial assets		**20,034**	19,177
Other assets		**3,212**	3,212
		1,822,190	2,621,246
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	18	**11,158,513**	18,364,129
Lease premium for land		**509**	509
Tax recoverable		**126**	148
Margin Funds on derivatives contracts	19	**40,928,324**	55,428,888
Financial assets at fair value through profit or loss	20	**2,969,259**	2,996,555
Available-for-sale financial assets	17	**2,324,231**	3,041,737
Time deposits with original maturities over three months		**36,416**	682,174
Cash and cash equivalents		**6,769,547**	4,744,711
		64,186,925	85,258,851
Non-current assets held for sale	21	**–**	64,092
		64,186,925	85,322,943
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	19	**40,928,324**	55,428,888
Accounts payable, accruals and other liabilities	22	**16,734,734**	21,375,909
Financial liabilities at fair value through profit or loss	20	**529**	6,149
Participants' admission fees received		**5,050**	3,050
Deferred revenue		**177,813**	375,174
Taxation payable		**1,201,293**	687,726
Provisions	23	**35,079**	29,630
		59,082,822	77,906,526
NET CURRENT ASSETS		**5,104,103**	7,416,417
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,926,293**	10,037,663

	Note	**Unaudited at 30 Sept 2008 $'000**	Audited at 31 Dec 2007 $'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		**80,100**	82,550
Participants' contributions to Clearing House Funds	16	**719,150**	1,496,855
Deferred tax liabilities		**27,653**	36,873
Financial guarantee contract	31(b)	**19,909**	19,909
Provisions	23	**24,923**	24,128
		871,735	1,660,315
NET ASSETS		**6,054,558**	8,377,348
CAPITAL AND RESERVES			
Share capital	24	**1,074,874**	1,070,285
Share premium	24	**346,631**	266,170
Shares held for Share Award Scheme	24	**(79,950)**	(47,803)
Employee share-based compensation reserve	25	**53,178**	49,669
Revaluation reserves	26	**56,661**	56,036
Designated reserves	27	**711,961**	694,853
Retained earnings	28	**3,891,203**	6,288,138
SHAREHOLDERS' FUNDS		**6,054,558**	8,377,348
TOTAL ASSETS		**66,009,115**	87,944,189
TOTAL LIABILITIES		**59,954,557**	79,566,841
SHAREHOLDERS' FUNDS PER SHARE		**$5.64**	$7.83

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited Nine months ended 30 Sept 2008 $'000**	Unaudited Nine months ended 30 Sept 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	29(a)	**6,413,121**	6,528,741
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(188,512)**	(61,914)
Net proceeds from sales of properties		**132,733**	–
Proceeds from sales of fixed assets		**1**	260
Net proceeds from disposal of an associate		**–**	270,050
Dividends received from an associate		**–**	9,660
Decrease in time deposits with original maturities more than three months		**645,758**	91,539
Net decrease/(increase) in available-for-sale financial assets of the Corporate Funds		**875,762**	(1,133,911)
Interest received from available-for-sale financial assets		**393,478**	468,972
Net cash inflow/(outflow) from investing activities		**1,859,220**	(355,344)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**66,322**	57,007
Purchase of shares for Share Award Scheme		**(32,494)**	(4,879)
Net admission fees (refunded to)/received from Participants		**(450)**	2,050
Dividends paid		**(6,280,883)**	(3,160,056)
Net cash outflow from financing activities		**(6,247,505)**	(3,105,878)
Net increase in cash and cash equivalents		**2,024,836**	3,067,519
Cash and cash equivalents at 1 Jan 2008/1 Jan 2007, as previously reported		**4,744,711**	2,215,257
Effect of reclassification of CFRA		**–**	8,653
Cash and cash equivalents at 30 Sept		**6,769,547**	5,291,429
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**1,626,119**	1,865,646
Cash at bank and in hand		**5,143,428**	3,425,783
Cash and cash equivalents at 30 Sept		**6,769,547**	5,291,429

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated accounts should be read in conjunction with the 2007 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2007.

2. Turnover

Turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and derivatives contracts traded on Hong Kong Futures Exchange Limited ("Futures Exchange"), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, net investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are included in **Income** in the condensed consolidated income statement.

3. Operating Segments

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries ("Group") determine their operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, callable bull/bear contracts, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("GEM"). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 5.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options, and interest rate and Exchange Fund Note futures. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the three clearing houses, namely Hong Kong Securities Clearing Company Limited ("HKSCC"), The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKCC"), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from net investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

The **Information Services** business is responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its income comprises primarily income from sale of Cash Market and Derivatives Market data.

3. Operating Segments (continued)

An analysis of the Group's reportable segment profit before taxation for the period by operating segment is as follows:

	Nine months ended 30 Sept 2008				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income from external customers	**2,421,588**	**525,383**	**1,592,033**	**511,331**	**5,050,335**
Net investment income	**51,364**	**664,811**	**11,960**	**124**	**728,259**
Gain on disposal of properties	**33,442**	**11,580**	**19,116**	**4,503**	**68,641**
Total income	**2,506,394**	**1,201,774**	**1,623,109**	**515,958**	**5,847,235**
Operating expenses					
Direct costs	**436,108**	**105,611**	**431,454**	**39,229**	**1,012,402**
Indirect costs	**132,387**	**44,056**	**91,560**	**18,107**	**286,110**
	568,495	**149,667**	**523,014**	**57,336**	**1,298,512**
Reportable segment profit before taxation	**1,937,899**	**1,052,107**	**1,100,095**	**458,622**	**4,548,723**

	Nine months ended 30 Sept 2007				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income from external customers	2,261,561	417,052	1,573,543	468,014	4,720,170
Net investment income	112,795	490,364	170,504	585	774,248
Fair value gain of an investment property	1,100	–	–	–	1,100
Total income	2,375,456	907,416	1,744,047	468,599	5,495,518
Operating expenses					
Direct costs	367,216	104,107	263,366	37,680	772,369
Indirect costs	117,566	37,877	83,774	16,907	256,124
	484,782	141,984	347,140	54,587	1,028,493
Operating profit	1,890,674	765,432	1,396,907	414,012	4,467,025
Gain on disposal of an associate	–	–	206,317	–	206,317
Share of profit of an associate	–	–	5,587	–	5,587
Reportable segment profit before taxation	1,890,674	765,432	1,608,811	414,012	4,678,929

3. Operating Segments (continued)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies. Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments) are allocated to the operating segments as they are included in the measure of the segments' profit that is used by the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance. Performance is measured based on segment profit before taxation. Taxation charge/(credit) is not allocated to reportable segments.

There were no inter-segment sales during the period (2007: $Nil).

(b) Reportable segment assets

The assets of the Group are allocated based on the operations of the segments. Central assets are generally allocated to the segments, but deferred tax assets and tax recoverable are not allocated to the segments. An analysis of the Group's reportable segment assets by operating segment is as follows:

	At 30 Sept 2008				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Reportable segment assets	**6,390,873**	**41,666,027**	**17,841,411**	**106,094**	**66,004,405**

	At 31 Dec 2007				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Reportable segment assets (excluding non-current assets held for sale)	4,664,621	56,877,568	26,219,215	114,935	87,876,339
Non-current assets held for sale	29,880	9,588	20,567	4,057	64,092
Reportable segment assets	4,694,501	56,887,156	26,239,782	118,992	87,940,431

Reportable segment assets are reconciled to total assets of the Group as follows:

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Reportable segment assets	**66,004,405**	87,940,431
Unallocated assets:		
Tax recoverable	**126**	148
Deferred tax assets	**4,584**	3,610
Total assets per condensed consolidated statement of financial position	**66,009,115**	87,944,189

4. Trading Fees and Trading Tariff

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	**1,646,201**	1,508,778	**453,533**	693,538
Derivatives contracts traded on the Derivatives Market	**562,316**	454,159	**201,502**	194,580
	2,208,517	1,962,937	**655,035**	888,118

5. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of Listing Function comprised the following:

	Nine months ended 30 Sept 2008				Nine months ended 30 Sept 2007			
	Equity		**Debt**		Equity		Debt	
	Main Board $'000	**GEM $'000**	**& Derivatives $'000**	**Total $'000**	Main Board $'000	GEM $'000	& Derivatives $'000	Total $'000
Stock Exchange Listing Fees								
Annual listing fees	**236,599**	**19,155**	**2,074**	**257,828**	205,179	18,549	1,474	225,202
Initial and subsequent issue listing fees	**65,972**	**2,920**	**211,032**	**279,924**	44,496	3,665	196,422	244,583
Prospectus vetting fees	**1,910**	**240**	**20**	**2,170**	2,700	165	100	2,965
Other listing fees	**1,366**	**456**	**–**	**1,822**	1,188	276	–	1,464
Total	**305,847**	**22,771**	**213,126**	**541,744**	253,563	22,655	197,996	474,214
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**135,158**	**29,312**	**10,080**	**174,550**	121,886	24,119	8,920	154,925
Information technology and computer maintenance expenses	**3,331**	**675**	**233**	**4,239**	1,605	397	7	2,009
Premises expenses	**13,771**	**2,880**	**641**	**17,292**	13,325	2,530	645	16,500
Legal and professional fees	**8,042**	**746**	**–**	**8,788**	3,877	55	–	3,932
Depreciation	**3,226**	**898**	**1,069**	**5,193**	1,922	388	101	2,411
Other operating expenses	**5,140**	**1,564**	**402**	**7,106**	3,690	1,389	292	5,371
Total direct costs	**168,668**	**36,075**	**12,425**	**217,168**	146,305	28,878	9,965	185,148
Total indirect costs	**27,390**	**5,081**	**6,966**	**39,437**	24,350	4,527	6,486	35,363
Total costs	**196,058**	**41,156**	**19,391**	**256,605**	170,655	33,405	16,451	220,511
Contribution to Cash Market Segment Profit before Taxation	**109,789**	**(18,385)**	**193,735**	**285,139**	82,908	(10,750)	181,545	253,703

5. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2008				Three months ended 30 Sept 2007			
	Equity		Debt		Equity		Debt	
	Main Board $'000	GEM $'000	& Derivatives $'000	Total $'000	Main Board $'000	GEM $'000	& Derivatives $'000	Total $'000
Stock Exchange Listing Fees								
Annual listing fees	**80,855**	**6,400**	**769**	**88,024**	71,362	6,303	496	78,161
Initial and subsequent issue listing fees	**29,823**	**520**	**66,155**	**96,498**	16,198	1,410	83,005	100,613
Prospectus vetting fees	**500**	**30**	**10**	**540**	960	120	50	1,130
Other listing fees	**542**	**180**	**–**	**722**	264	46	–	310
Total	**111,720**	**7,130**	**66,934**	**185,784**	88,784	7,879	83,551	180,214
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**42,510**	**8,568**	**3,044**	**54,122**	45,272	9,575	3,253	58,100
Information technology and computer maintenance expenses	**1,120**	**231**	**97**	**1,448**	604	158	7	769
Premises expenses	**4,731**	**926**	**217**	**5,874**	4,496	909	209	5,614
Legal and professional fees	**3,636**	**728**	**–**	**4,364**	1,746	2	–	1,748
Depreciation	**1,160**	**322**	**414**	**1,896**	977	198	44	1,219
Other operating expenses	**1,515**	**406**	**93**	**2,014**	984	257	69	1,310
Total direct costs	**54,672**	**11,181**	**3,865**	**69,718**	54,079	11,099	3,582	68,760
Total indirect costs	**7,929**	**1,437**	**1,710**	**11,076**	8,682	1,803	2,644	13,129
Total costs	**62,601**	**12,618**	**5,575**	**80,794**	62,761	12,902	6,226	81,889
Contribution to Cash Market Segment Profit before Taxation	**49,119**	**(5,488)**	**61,359**	**104,990**	26,023	(5,023)	77,325	98,325

Listing fee income was primarily fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The direct costs listed above were regulatory in nature, which comprised costs of the Listing Function on vetting Initial Public Offerings ("IPOs") and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprised costs of support services and other central overheads attributable to the Listing Function.

6. Net Investment Income

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Interest income				
– bank deposits	**439,744**	582,815	**92,320**	283,639
– listed available-for-sale financial assets	**8,049**	20,334	**3,338**	5,263
– unlisted available-for-sale financial assets	**414,096**	473,149	**101,546**	163,455
	861,889	1,076,298	**197,204**	452,357
Interest expenses	**(74,798)**	(471,252)	**(2,015)**	(188,370)
Net interest income	**787,091**	605,046	**195,189**	263,987
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss				
On designation				
– bank deposits with embedded derivatives	**167**	–	**167**	–
Held for trading				
– listed securities	**(59,021)**	122,423	**(30,191)**	45,652
– unlisted securities	**20,989**	38,210	**835**	20,778
– exchange differences	**(27,150)**	2,738	**(28,613)**	(10,554)
	(65,182)	163,371	**(57,969)**	55,876
	(65,015)	163,371	**(57,802)**	55,876
Realised gains on disposal of unlisted available-for-sale financial assets	**1,460**	–	–	–
Dividend income from listed financial assets at fair value through profit or loss	**3,289**	5,790	**865**	1,778
Other exchange differences on loans and receivables	**1,434**	41	**56**	(133)
Net investment income	**728,259**	774,248	**138,308**	321,508
Net investment income/(loss) was derived from:				
Corporate Funds	**52,551**	278,026	**(27,849)**	105,611
Margin Funds	**658,417**	443,695	**160,997**	192,819
Clearing House Funds	**17,291**	52,527	**5,160**	23,078
	728,259	774,248	**138,308**	321,508

7. Other Income

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Network, terminal user, dataline and software sub-license fees	**217,359**	204,351	**57,539**	96,490
Participants' subscription and application fees	**25,722**	25,574	**8,593**	8,523
Brokerage on direct IPO allotments	**5,216**	58,610	**639**	22,541
Trading booth user fees	**7,162**	7,216	**2,385**	2,428
Fair value gain of an investment property	**–**	1,100	**–**	–
Accommodation income on securities deposited by Participants as alternatives to cash deposits of the Margin Funds	**19,891**	8,940	**4,675**	3,600
Sales of Trading Right	**6,835**	2,000	**–**	2,000
Miscellaneous income	**14,567**	11,724	**4,998**	3,937
	296,752	319,515	**78,829**	139,519

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Salaries and other short-term employee benefits	**581,764**	547,185	**176,980**	199,593
Employee share-based compensation benefits (note 25):				
– employee share options	**5,487**	7,692	**1,048**	2,327
– Awarded Shares	**17,030**	10,278	**4,958**	3,503
	22,517	17,970	**6,006**	5,830
Termination benefits	**430**	184	**2**	11
Retirement benefit costs (note a):				
– ORSO Plan	**45,104**	40,117	**15,100**	13,701
– MPF Scheme	**393**	345	**134**	118
	650,208	605,801	**198,222**	219,253

(a) The Group has sponsored two defined contribution post-retirement benefit plans – the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan") and the AIA-JF Premium MPF Scheme ("MPF Scheme"). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution payable to the MPF Scheme and the ORSO Plan was outstanding as at 30 September 2008 (31 December 2007: $104,000 and $Nil respectively).

9. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Costs of services and goods:				
– consumed by the Group	**107,648**	99,672	**33,829**	32,671
– directly consumed by Participants	**72,006**	51,588	**24,299**	17,892
	179,654	151,260	**58,128**	50,563

10. Other Operating Expenses

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	Three months ended 30 Sept 2008 $'000	Three months ended 30 Sept 2007 $'000
Provision for/(reversal of provision for) impairment losses of trade receivables (note a)	**165,437**	62	**165,120**	(311)
Insurance	**3,589**	3,289	**1,242**	876
Financial data subscription fees	**3,302**	2,976	**1,145**	990
Custodian and fund management fees	**8,889**	6,899	**2,829**	2,439
Bank charges	**7,636**	15,870	**2,149**	6,244
Repairs and maintenance expenses	**6,101**	6,424	**2,023**	2,085
License fees	**11,413**	10,277	**3,516**	3,624
Communication expenses	**4,006**	3,992	**1,241**	1,294
Other miscellaneous expenses	**39,837**	38,143	**13,661**	11,821
	250,210	87,932	**192,926**	29,062

(a) Amount for 2008 included $159,151,000 of provision for impairment losses of trade receivables of Lehman Brothers Group, of which $157,141,000 arose from the default of Lehman Brothers Securities Asia Limited ("LBSA") on market contracts and $2,010,000 relates to miscellaneous billings and receivables.

On 16 September 2008, the Securities and Futures Commission ("SFC") issued a restriction notice on LBSA, which prohibited LBSA from settling its outstanding positions in Central Clearing and Settlement System ("CCASS"). Following the issue of the SFC restriction notice, LBSA was declared a defaulter and its outstanding positions were closed out by HKSCC in accordance with the General Rules of CCASS. HKSCC incurred a loss of $157,141,000 (including costs and expenses) as a result of such closing-out. LBSA submitted a winding-up petition and provisional liquidators were appointed on 17 September 2008. HKSCC will seek recovery of the closing-out loss via the liquidation process and after giving due regard to its entitlement to recover the loss, or part thereof, from the HKSCC Guarantee Fund and other avenues available to HKSCC for the recovery of such loss. The HKSCC Guarantee Fund presently stands at $394,055,000 (including $26,220,000 of bank guarantees).

11. Gain on Disposal of an Associate

In April 2007, the Group sold all of its 7,317 fully paid Class A ordinary shares (equivalent to 30 per cent of the issued share capital) of Computershare Hong Kong Investor Services Limited ("CHIS") for a consideration of $270,320,000. The accounting profit on disposal of the investment, after deducting stamp duty of $270,000, amounted to $206,317,000 and was recognised in the condensed consolidated income statement during the nine months ended 30 September 2007.

12. Taxation

Taxation charge/(credit) in the condensed consolidated income statement represented:

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	Three months ended 30 Sept 2008 $'000	Three months ended 30 Sept 2007 $'000
Provision for Hong Kong Profits Tax for the period (note a)	**625,546**	658,713	**155,174**	285,436
Overprovision in respect of prior years	**(151)**	(1)	**(151)**	(1)
	625,395	658,712	**155,023**	285,435
Deferred taxation	**(10,725)**	7,837	**(8,335)**	8,217
	614,670	666,549	**146,688**	293,652

(a) Hong Kong Profits Tax has been provided for at 16.5 per cent (2007: 17.5 per cent) on the estimated assessable profit for the period.

13. Dividends

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Interim dividend paid of $2.49 (2007: $1.79) per share	**2,676,436**	1,914,499	**–**	–
Less: Dividend for shares held by HKEx Employees' Share Award Scheme	**(3,061)**	(2,306)	**–**	–
	2,673,375	1,912,193	**–**	–

14. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	Nine months ended 30 Sept 2008	Nine months ended 30 Sept 2007	**Three months ended 30 Sept 2008**	Three months ended 30 Sept 2007
Profit attributable to shareholders ($'000)	**3,934,053**	4,012,380	**959,647**	1,682,079
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,071,737,234**	1,066,796,137	**1,073,349,273**	1,067,944,265
Basic earnings per share	**$3.67**	$3.76	**$0.89**	$1.58

(b) Diluted earnings per share

	Nine months ended 30 Sept 2008	Nine months ended 30 Sept 2007	**Three months ended 30 Sept 2008**	Three months ended 30 Sept 2007
Profit attributable to shareholders ($'000)	**3,934,053**	4,012,380	**959,647**	1,682,079
Weighted average number of shares in issue less shares held for Share Award Scheme	**1,071,737,234**	1,066,796,137	**1,073,349,273**	1,067,944,265
Effect of employee share options	**5,878,512**	10,120,460	**4,125,086**	9,330,276
Effect of Awarded Shares	**1,148,411**	1,225,631	**1,164,812**	1,255,543
Weighted average number of shares for the purpose of calculating diluted earnings per share	**1,078,764,157**	1,078,142,228	**1,078,639,171**	1,078,530,084
Diluted earnings per share	**$3.65**	$3.72	**$0.89**	$1.56

15. Fixed Assets

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and for post-trading clearing and settlement services. The total cost of additions to fixed assets of the Group during the nine months to 30 September 2008 was $66,311,000 (2007: $128,620,000) of which $48,220,000 (2007: $124,507,000) or 73 per cent (2007: 97 per cent) was on computer systems, hardware and software. The total cost and net book value of disposals and write-offs of fixed assets during the nine months to 30 September 2008 were $28,531,000 and $3,000 respectively (2007: $4,260,000 and $Nil respectively).

16. Clearing House Funds

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Net assets of the Clearing House Funds were as follows (note a):		
HKSCC Guarantee Fund	**367,835**	362,015
SEOCH Reserve Fund	**470,681**	1,263,056
HKCC Reserve Fund	**591,859**	567,133
	1,430,375	2,192,204
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	**411,270**	361,506
Time deposits with original maturities over three months	**21,560**	–
Cash and cash equivalents	**1,020,545**	1,841,508
	1,453,375	2,203,014
Less: Other liabilities	**(23,000)**	(10,810)
	1,430,375	2,192,204
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note b)	**719,150**	1,496,855
Designated reserves (note 27):		
– Clearing houses' contributions	**320,200**	320,200
– Forfeiture of a defaulted Clearing Participant's contributions	**1,928**	1,928
– Accumulated net investment income net of expenses attributable to:		
– Clearing Participants' contributions	**292,640**	282,213
– Clearing houses' contributions	**97,193**	90,512
	711,961	694,853
Revaluation reserve (note 26(d))	**(736)**	496
	1,430,375	2,192,204
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing within twelve months	**1,430,375**	2,192,204

(a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions (note 32).

(b) Amounts included Participants' additional deposits of $315,200,000 (31 December 2007: $1,116,555,000).

(c) The Clearing House Funds were established to support the respective clearing houses (ie, HKSCC, HKCC and SEOCH) to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS.

17. Available-for-sale Financial Assets

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Debt securities, at market value		
– listed outside Hong Kong	**161,557**	–
– unlisted	**2,162,674**	3,067,007
	2,324,231	3,067,007
Analysis of available-for-sale financial assets:		
Non-current portion maturing after twelve months	**–**	25,270
Current portion maturing within twelve months	**2,324,231**	3,041,737
	2,324,231	3,067,007

18. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $11,158,513,000 (31 December 2007: $18,364,129,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (31 December 2007: 94 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

19. Margin Funds on Derivatives Contracts

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
The Margin Funds comprised (note a):		
SEOCH Clearing Participants' Margin Funds	**4,096,443**	9,741,149
HKCC Clearing Participants' Margin Funds	**36,831,881**	45,687,739
	40,928,324	55,428,888
The net assets of the Margin Funds comprised:		
Financial assets at fair value through profit or loss, on designation		
– bank deposit with embedded derivative, at fair value (note b)	**109,704**	–
Available-for-sale financial assets:		
Debt securities, at market value:		
– listed outside Hong Kong	**319,555**	243,047
– unlisted	**16,017,975**	16,491,959
Time deposits with original maturities over three months	**586,259**	2,508,559
Cash and cash equivalents	**25,187,067**	36,182,526
Margin receivable from Clearing Participants	**4,374**	3,068
	42,224,934	55,429,159
Less: Other liabilities	**(1,296,610)**	(271)
	40,928,324	55,428,888
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	**40,928,324**	55,428,888
The maturity profile of the net assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**–**	456,396
Amounts maturing within twelve months	**40,928,324**	54,972,492
	40,928,324	55,428,888

(a) Amounts excluded non-cash collateral received and utilised as alternatives to cash margin (note 32).

(b) The maximum exposure to credit risk of the bank deposit as at 30 September 2008 was $109,704,000 (31 December 2007: $Nil). No related credit derivative or similar instrument was used to mitigate the maximum exposure to credit risk. There was no fair value change of the bank deposit attributable to changes in credit risk since its acquisition in 2008, which was determined as the amount of change in fair value that was not attributable to changes in market conditions that gave rise to market risk.

20. Financial Assets/Liabilities at Fair Value through Profit or Loss

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at market value		
– listed in Hong Kong	**13,983**	49,559
– listed outside Hong Kong	**99,462**	177,591
	113,445	227,150
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**59,669**	47,569
– listed outside Hong Kong	**1,360,256**	1,363,356
– unlisted	**1,302,969**	1,258,030
	2,722,894	2,668,955
Held for trading		
Mutual funds, at market value		
– listed outside Hong Kong	**73,252**	96,778
Held for trading		
Derivative financial instruments, at market value		
– equity index futures contracts, listed outside Hong Kong (note a)	**–**	159
– forward foreign exchange contracts	**59,668**	3,513
	59,668	3,672
	2,969,259	2,996,555
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts	**529**	6,149

(a) The total notional value of the futures contracts outstanding was $Nil (31 December 2007: $6,964,000).

21. Non-current Assets Held for Sale

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Leasehold building	–	7,524
Investment property	–	24,200
Lease premium for land of leasehold property	–	32,368
	–	64,092
Reserves associated with assets held for sale recognised in other comprehensive income (leasehold buildings revaluation reserve (note 26))	–	3,155

On 19 September 2007, the Board approved the disposal of one of the leasehold properties and the investment property held by the Group as the Board resolved to restructure the Group's property portfolio. No impairment losses were recognised on the reclassification of the properties as held for sale.

In January 2008, the Group entered into agreements with two third parties to sell the leasehold property and the investment property for a consideration of $103,380,000 and $30,400,000 respectively. The sale transactions were completed on 18 February 2008. The accounting profit on the disposal of the properties, after deducting related selling expenses of $1,047,000, amounted to $68,641,000 ($62,709,000 for the leasehold property and $5,932,000 for the investment property) and was recognised in the condensed consolidated income statement during the nine months ended 30 September 2008.

22. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $16,734,734,000 (31 December 2007: $21,375,909,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 63 per cent (31 December 2007: 81 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

23. Provisions

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2008	**24,128**	**29,630**	**53,758**
Provision for the period	**2,021**	**33,887**	**35,908**
Amount used during the period	–	**(28,755)**	**(28,755)**
Unused amount reversed during the period	**(38)**	–	**(38)**
Amount paid during the period	**(2)**	**(869)**	**(871)**
At 30 Sept 2008	**26,109**	**33,893**	**60,002**

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Analysis of provisions:		
Current	**35,079**	29,630
Non-current	**24,923**	24,128
	60,002	53,758

24. Share Capital, Share Premium and Shares Held for Share Award Scheme

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

Issued and fully paid:

	Number of shares of $1 each	Share capital $'000	Share premium $'000	Shares held for Share Award Scheme $'000	Total $'000
At 1 Jan 2007	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093
Shares issued under employee share option schemes (note a)	4,837,000	4,837	61,215	–	66,052
Transfer from employee share-based compensation reserve (note 25)	–	–	19,013	–	19,013
Shares purchased for Share Award Scheme (note b)	(42,500)	–	–	(4,879)	(4,879)
Vesting of shares of Share Award Scheme (note c)	243,868	–	–	8,373	8,373
At 31 Dec 2007	1,069,228,714	1,070,285	266,170	(47,803)	1,288,652
At 1 Jan 2008	**1,069,228,714**	**1,070,285**	**266,170**	**(47,803)**	**1,288,652**
Shares issued under employee share option schemes (note a)	**4,588,500**	**4,589**	**61,733**	**–**	**66,322**
Transfer from employee share-based compensation reserve (note 25)	**–**	**–**	**18,728**	**–**	**18,728**
Shares purchased for Share Award Scheme (note b)	**(214,600)**	**–**	**–**	**(32,494)**	**(32,494)**
Vesting of shares of Share Award Scheme (note c)	**9,590**	**–**	**–**	**347**	**347**
At 30 Sept 2008	**1,073,612,204**	**1,074,874**	**346,631**	**(79,950)**	**1,341,555**

(a) During the period, employee share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") and the Post-Listing Share Option Scheme ("Post-Listing Scheme") were exercised to subscribe for 4,588,500 shares (year ended 31 December 2007: 4,837,000 shares) in HKEx at an average consideration of $14.45 per share (year ended 31 December 2007: $13.66 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the period, the HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") acquired 214,600 HKEx shares (year ended 31 December 2007: 42,500 shares) through purchases on the open market for the Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006 ("Share Award Scheme") (note 25(c)). The total amount paid to acquire the shares during the period was $32,494,000 (year ended 31 December 2007: $4,879,000) and had been deducted from shareholders' equity.

(c) During the period, the HKEx Employee Share Trust transferred 9,590 HKEx shares (year ended 31 December 2007: 243,868 shares) to the awardees upon vesting of certain HKEx shares awarded ("Awarded Shares") and the related shares arising from dividends reinvested. The total cost of the related vested shares was $347,000 (year ended 31 December 2007: $8,373,000).

25. Employee Share–based Compensation Reserve

	2008 $'000	2007 $'000
At 1 Jan	**49,669**	52,119
Employee share-based compensation benefits (note a)	**22,517**	24,362
Transfer to share premium upon exercise of employee share options (note 24)	**(18,728)**	(19,013)
Vesting of shares of Share Award Scheme	**(280)**	(7,286)
Share of reserve of an associate		
– during the period/year	**–**	47
– eliminated through disposal of associate	**–**	(560)
At 30 Sept 2008/31 Dec 2007	**53,178**	49,669

(a) Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options and share awards over the relevant vesting periods, the total of which is based on the fair value of the options and share awards granted. The amount for each period is determined by spreading the fair value of the options and share awards over the relevant vesting periods and is recognised as staff costs and related expenses (note 8) with a corresponding increase in the employee share-based compensation reserve.

(b) Share options

(i) HKEx operates two share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, under which the Board may, at its discretion, offer any employee (including any Executive Director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes were approved by the shareholders of HKEx on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at a discounted price, were approved by the shareholders of HKEx on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

The options granted under the Pre-Listing Scheme are exercisable, subject to a vesting scale which commenced on 6 March 2002 in tranches of 25 per cent each per annum and reaching 100 per cent on 6 March 2005, not later than 30 May 2010, providing the grantees remain under the employ of the Group. Share options granted under the Post-Listing Scheme are exercisable, subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and reaching 100 per cent on the fifth anniversary of the date of grant, not later than 10 years from the date of grant, providing that the grantees remain under the employ of the Group.

No share options were granted after 26 January 2005 and no further share options will be granted following the adoption of the Share Award Scheme in September 2005 (note c).

Shares are issued and allotted upon options are exercised. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

25. Employee Share–based Compensation Reserve (continued)

(b) Share options (continued)

(ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2008		2007	
	Average exercise price per share $	**Number of shares issuable under options granted**	Average exercise price per share $	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	**6.88**	**379,000**	6.88	788,000
Exercised	**6.88**	**(249,000)**	6.88	(409,000)
Outstanding at 30 Sept 2008/ 31 Dec 2007	**6.88**	**130,000**	6.88	379,000
Post-Listing Scheme				
Outstanding at 1 Jan	**16.67**	**9,089,500**	15.68	14,593,500
Exercised	**14.89**	**(4,339,500)**	14.28	(4,428,000)
Forfeited	**18.54**	**(171,000)**	13.01	(1,076,000)
Outstanding at 30 Sept 2008/ 31 Dec 2007	**18.29**	**4,579,000**	16.67	9,089,500
Total	**17.98**	**4,709,000**	16.28	9,468,500

(c) Awarded Shares

(i) On 14 September 2005 ("Adoption Date"), the Board approved the Share Award Scheme under which Awarded Shares may be awarded to an Executive Director and employees of the Group in accordance with the terms and conditions of the Share Award Scheme. Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, HKEx Employee Share Trust, for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date provided that no contribution will be made by HKEx to the HKEx Employee Share Trust on or after the tenth anniversary of the Adoption Date. Awarded Shares awarded and the dividends derived therefrom are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and reaching 100 per cent on the fifth anniversary of the date of approval of the award by the Board or the date as determined by the Board at its discretion, providing that the awardees remain under the employ of the Group, save that in the case when an awardee dies, or retires at his/her normal retirement date or earlier by agreement prior to the final vesting date, all the Awarded Shares and the related income shall become fully vested on the day immediately prior to his/her death or retirement. Vested shares will be transferred at no cost to the relevant awardees.

Prior to 16 August 2006, a fixed number of HKEx shares were awarded to eligible employees which would then be acquired from the market at the cost of HKEx by the trustee of the HKEx Employee Share Trust ("Trustee"). With effect from 16 August 2006, the rules of the Share Award Scheme have been amended and the Board will thereafter approve a monetary amount for each award ("Awarded Sum") plus transaction costs to be incurred, with which the Trustee will then purchase the maximum number of board lots of HKEx shares from the market within 20 business days after receiving the Awarded Sum and transaction costs from HKEx. The Awarded Shares purchased will then be allocated to each awardee based on the monetary amount awarded to him/her, rounded down to the nearest share.

25. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

For Awarded Shares granted prior to 16 August 2006, the fair value of the Awarded Shares awarded was based on the market value of HKEx shares at award date. For Awarded Shares granted after 16 August 2006, the fair value of the Awarded Shares awarded was based on the average purchase cost per Awarded Share acquired by the Trustee from the market. The expected dividends during the vesting periods have been incorporated into the fair value.

Dividends on the Awarded Shares are used to acquire further HKEx shares and allocated to the awardees on a pro rata basis. The vesting periods of such shares are the same as those of the Awarded Shares to which the dividends relate.

Details of the Awarded Shares awarded since the adoption of the Share Award Scheme are set out below:

Date of approval by Board	Date of award	Awarded Sum $'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
19 Dec 2005	19 Dec 2005	N/A	960,000	960,000	31.20	19 Dec 2007 – 19 Dec 2010
13 Dec 2006	15 Jan 2007	19,673	272,500	272,465 *	72.28	13 Dec 2008 – 13 Dec 2011
14 Feb 2007	7 Jun 2007	600	7,000	7,000	81.33	16 Apr 2009 – 16 Apr 2012
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	12 Dec 2009 – 12 Dec 2012
18 Feb 2008	7 Apr 2008	612	4,200	4,200 Ω	144.18	18 Feb 2010 – 18 Feb 2013

* 11,528 shares were awarded to the Chief Executive of HKEx

Ω Awarded to the Chief Executive of HKEx

Details of the Awarded Shares vested since the adoption of the Share Award Scheme are as follows:

Date of award	Vesting date	Number of Awarded Shares vested	Average fair value per share $	Cost of related Awarded Shares (including acquisition transaction costs) $'000
19 Dec 2005	19 Dec 2007	232,375	31.20	7,286
19 Dec 2005	30 Apr 2008	8,925	31.20	280

During the period ended 30 September 2008, 59,400 HKEx shares were acquired by the Trustee through reinvesting dividends received at a total cost (including related transaction costs) of $7,167,000, of which 25,799 shares were subsequently allocated to awardees prior to 30 September 2008 and 30,578 shares were subsequently allocated to awardees on 10 October 2008 (year ended 31 December 2007: 30,000 HKEx shares at a total cost of $3,747,000, of which 29,132 shares were subsequently allocated to awardees).

During the period ended 30 September 2008, 665 HKEx shares at a cost of $67,000 acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration (year ended 31 December 2007: 11,493 HKEx shares at a cost of $1,087,000 were vested).

25. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(ii) Movements in the number of Awarded Shares awarded and shares acquired through reinvesting dividends received were as follows:

	2008 Number of shares awarded/ allocated	2007 Number of shares awarded/ allocated
Outstanding at 1 Jan	**1,024,262**	955,906
Awarded *	**155,165#**	284,965
Forfeited	**(31,298)**	(1,800)
Vested	**(8,925)**	(232,375)
Dividends reinvested:		
– allocated to awardees	**25,799**	29,132
– allocated to awardees but subsequently forfeited	**(1,622)**	(73)
– vested	**(665)**	(11,493)
Outstanding at 30 Sept 2008/31 Dec 2007	**1,162,716**	1,024,262

* Average fair value per share of $163.19 (year ended 31 December 2007: $73.08)

Included 150,965 Awarded Shares purchased for the Awarded Sum of $26,300,000 approved by the Board on 12 December 2007, which were allocated to the awardees upon the completion of share purchase by the Trustee on 4 February 2008

(iii) As at 30 September 2008, 98,926 forfeited or unallocated shares were held by the HKEx Employee Share Trust. Out of these shares, 30,578 shares were allocated to awardees on 10 October 2008, and the remaining 68,348 shares would be allocated to awardees in future (31 December 2007: 32,370 shares were held by the HKEx Employee Share Trust and would be allocated to awardees in future).

26. Revaluation Reserves

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Leasehold buildings revaluation reserve (notes b and c)	**–**	3,155
Investment revaluation reserve (note d)	**56,661**	52,881
	56,661	56,036

(a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.

(b) Following the disposal of the leasehold property held for sale (note 21), the leasehold buildings revaluation reserve relating to this property was transferred to retained earnings during the period (note 28).

(c) The remaining leasehold building held by the Group is revalued on a yearly basis at the end of December each year.

(d) Included gross investment revaluation deficit of $736,000 (31 December 2007: surplus of $496,000) which was attributable to investments of the Clearing House Funds (note 16).

27. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	**274,921**	269,635
– SEOCH Reserve Fund reserve	**105,873**	102,828
– HKCC Reserve Fund reserve	**331,167**	322,390
	711,961	694,853

28. Retained Earnings (Including Proposed/Declared Dividends)

	2008 $'000	2007 $'000
At 1 Jan	**6,288,138**	3,366,989
Profit for the period/year (note a)	**3,934,053**	6,169,278
Surplus of net investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(17,108)**	(67,037)
Transfer from leasehold buildings revaluation reserve on disposal of a leasehold property (note 26(b))	**3,155**	–
	(13,953)	(67,037)
Dividends:		
2007/2006 final dividend	**(3,634,850)**	(1,266,387)
Dividend on shares issued for employee share options exercised after 31 Dec 2007/31 Dec 2006	**(11,309)**	(3,879)
	(3,646,159)	(1,270,266)
2008/2007 interim dividend	**(2,670,320)**	(1,911,131)
Dividend on shares issued for employee share options exercised after 30 Jun 2008/30 Jun 2007	**(3,055)**	(1,062)
	(2,673,375)	(1,912,193)
Unclaimed dividend forfeited	**2,566**	2,454
Vesting of shares of Share Award Scheme	**(67)**	(1,087)
At 30 Sept 2008/31 Dec 2007	**3,891,203**	6,288,138
Representing:		
Retained earnings	**3,891,203**	2,652,760
Proposed/declared dividends	**–**	3,635,378
At 30 Sept 2008/31 Dec 2007	**3,891,203**	6,288,138

(a) The Group's profit for the period/year included the net investment income net of expenses of the Clearing House Funds of $17,108,000 (year ended 31 December 2007: $67,037,000).

29. Notes to the Condensed Consolidated Statement of Cash Flows

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000
Profit before taxation	**4,548,723**	4,678,929
Adjustments for:		
Net interest income	**(787,091)**	(605,046)
Net realised and unrealised losses/(gains) and interest income on financial assets and financial liabilities at fair value through profit or loss	**65,015**	(163,371)
Realised gains on available-for-sale financial assets of Corporate Funds	**(23)**	–
Dividend income from financial assets at fair value through profit or loss	**(3,289)**	(5,790)
Amortisation of lease premiums for land	**382**	411
Fair value gain of an investment property	**–**	(1,100)
Depreciation	**79,714**	59,984
Employee share-based compensation benefits	**22,517**	17,970
Reversal of impairment loss of a leasehold building	**–**	(64)
Provision for impairment losses of trade receivables	**165,437**	62
Changes in provisions	**4,263**	2,444
Share of profit of an associate	**–**	(5,587)
Gain on disposal of an associate	**–**	(206,317)
Gain on disposal of properties	**(68,641)**	–
Loss/(gain) on disposal of fixed assets	**2**	(260)
Net increase in financial assets and financial liabilities at fair value through profit or loss	**(158,349)**	(15,498)
Settlement of amounts transferred from retained earnings to Clearing House Funds	**(17,108)**	(52,422)
Decrease/(increase) in accounts receivable, prepayments and deposits	**7,044,029**	(9,185,070)
(Decrease)/increase in other current liabilities	**(4,834,850)**	11,840,917
Net cash inflow from operations	**6,060,731**	6,360,192
Interest received from bank deposits	**436,828**	582,815
Dividends received from financial assets at fair value through profit or loss	**2,919**	5,533
Interest received from financial assets at fair value through profit or loss	**99,693**	115,394
Interest paid	**(75,244)**	(475,031)
Hong Kong Profits Tax paid	**(111,806)**	(60,162)
Net cash inflow from operating activities	**6,413,121**	6,528,741

(b) The net assets of the Clearing House Funds and Margin Funds are held in segregated accounts for specific purposes. Movements in individual items of the net assets of the funds during the period therefore did not constitute any cash or cash equivalent transactions to the Group.

30. Commitments

Commitments in respect of capital expenditures:

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Contracted but not provided for	**37,300**	33,555
Authorised but not contracted for	**99,698**	131,349
	136,998	164,904

The commitments in respect of capital expenditures were mainly for the upgrade and enhancement of trading and clearing systems, development and purchases of various other computer systems and, for 2008, office and data centre relocation.

31. Contingent Liabilities

As at 30 September 2008, the Group's material contingent liabilities were as follows:

(a) The Group has a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding $72 million. Up to 30 September 2008, no calls had been made by the SFC in this connection.

(b) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to $200,000 in respect of the default of any one Participant.

During the period ended 30 September 2008, LBSA defaulted on its stamp duty payments. The Stock Exchange has accordingly paid $200,000 to the Collector of Stamp Revenue in respect of the guarantee.

In the unlikely event that all of its remaining 446 trading Participants as at 30 September 2008 (31 December 2007: 439) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $89,200,000 (31 December 2007: $87,800,000).

The carrying amount of the financial guarantee contract recognised in the condensed consolidated statement of financial position was $19,909,000 (31 December 2007: $19,909,000).

(c) HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

32. Non-cash Collateral for Clearing House Fund Contributions and Margin Fund Obligations for Derivatives Contracts

Under existing rules of the clearing houses, Participants may lodge cash or approved non-cash collateral to satisfy their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the condensed consolidated statement of financial position.

As at 30 September 2008, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations for derivatives contracts were as follows:

	At 30 Sept 2008		At 31 Dec 2007	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**1,231,220**	**89,719**	1,759,650	519,137
Margin Funds				
Equity securities, listed in Hong Kong, at market value	**2,801,540**	**–***	1,847,054	–*
US Treasury Bills, at market value	**3,820,791**	**2,771,975**	8,672,944	5,935,238
Bank guarantees	**770,000**	**475,606**	854,000	607,930
	7,392,331	**3,247,581**	11,373,998	6,543,168
	8,623,551	**3,337,300**	13,133,648	7,062,305

* Certain equity securities received were used to cover call options issued by SEOCH Participants whose underlying stocks were the same as the collateral received. Under the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH, such call options issued are not marginable positions (ie, no margin requirements). Hence, the amount is not treated as having been utilised for covering Margin Fund obligations. As at 30 September 2008, $1,015,143,000 (31 December 2007: $1,307,776,000) of equity securities were received for such purpose (including those amounts decovered but not yet released of $143,216,000 (31 December 2007: $23,066,000)).

In September 2008, the Group took possession of certain US Treasury Bills of Lehman Brothers Futures Asia Limited ("LBFA") following its default. The Treasury Bills were sold for US$119,842,000 in accordance with HKEx default handling procedures and applicable rules. Approximately HK$60,556,000 of the proceeds was used to settle the amount due from LBFA as at 30 September 2008.

In September 2008, the Group also called on the bank guarantee provided by LBSA of $5,000,000. $2,900,000 of the cash received was used to settle LBSA's contribution due to the HKSCC Guarantee Fund and the remaining $2,100,000 was used to settle part of the closing-out losses due from LBSA.

33. Material Related Party Transactions

Certain Directors of HKEx may be investor participants of HKSCC ("Investor Participants") or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants ("Exchange Participants"), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and/or (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

In addition to the above, the Group has entered into the following transactions with related parties:

(a) Transactions with an associate

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Income received and receivable from/(expenses paid and payable to) an associate, CHIS				
– Dividend income	–	9,660	–	–
– Share registration service fees	–	(396)	–	–

On 3 April 2007, the Group disposed of all of its interest in CHIS. The dividend income and share registration service fees for the nine months ended 30 September 2007 disclosed above represented transactions up to that date.

(b) Key management personnel compensation

	Nine months ended 30 Sept 2008 $'000	Nine months ended 30 Sept 2007 $'000	**Three months ended 30 Sept 2008 $'000**	Three months ended 30 Sept 2007 $'000
Salaries and other short-term employee benefits	**59,955**	54,292	**18,812**	19,759
Employee share-based compensation benefits	**8,242**	6,121	**1,887**	1,848
Retirement benefit costs	**4,851**	4,239	**1,667**	1,447
	73,048	64,652	**22,366**	23,054

(c) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 8.

(d) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

34. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

(a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity and commodity prices and interest rates. The Group is exposed to market risk primarily through its investments held.

Funds available for investment comprise three main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds and Margin Funds received (which exclude non-cash collateral and contributions receivable from Participants).

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management is governed by investment policy and risk management guidelines approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange and interest rate risks) of the investments.

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance and Administration Division is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates.

34. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The investment in non-HKD securities is governed by the Group's investment policy and subject to the following restrictions:

- up to 20 per cent of the Corporate Funds may be invested in non-HKD or non-USD investments after hedging;
- only USD investments are permitted for the Clearing House Funds; and
- foreign currency investments or deposits of the Margin Funds are permitted to the extent that they fully match the liabilities of the respective currencies, except up to 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of two weeks.

As at 30 September 2008, the aggregate net open foreign currency positions amounted to HK$2,110 million, of which HK$96 million were non-USD exposures (31 December 2007: HK$4,727 million, of which HK$210 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$3,234 million (31 December 2007: HK$2,926 million). All forward foreign exchange contracts would mature within two months (31 December 2007: two months).

(ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities and index futures and options contracts may be held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risks

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing.

34. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management

Risk management techniques, such as Value-at-Risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis.

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments of the Group during the period were as follows:

	Nine months ended 30 Sept 2008			Nine months ended 30 Sept 2007		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**5,741**	**7,480**	**4,448**	4,594	6,094	3,566
Equity price risk	**12,849**	**16,499**	**9,765**	12,389	15,636	7,922
Interest rate risk	**33,111**	**40,093**	**27,290**	16,509	18,724	13,703
Total VaR	**30,290**	**37,025**	**25,135**	22,558	27,446	16,966

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors. Moreover, in respect of the highest and lowest VaRs during the period, the highest and lowest VaRs in each market did not necessarily occur on the same day.

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 30 September 2008, the Group's total available banking facilities amounted to $3,558 million (31 December 2007: $3,058 million), of which $3,000 million (31 December 2007: $3,000 million) were repurchase facilities to augment the liquidity of the Margin Funds and $500 million (31 December 2007: $Nil) was a facility to draw down against certain bank deposits.

34. Financial Risk Management (continued)

(c) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. As at 30 September 2008, the bonds held were of investment grade and had a weighted average credit rating of Aa2 (31 December 2007: Aa1), and there were no financial assets whose terms were renegotiated (31 December 2007: $Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins and cash marks and contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 30 September 2008, bank guarantees of $4,374,000,000 (31 December 2007: $5,509,200,000) were accepted for such purpose.

In addition to the above, the Group has set aside $3,100 million (31 December 2007: $3,100 million) of shareholders' funds for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

34. Financial Risk Management (continued)

(c) Credit risk (continued)

(iii) Financial assets that were past due but not impaired

As at 30 September 2008, the age analysis of the trade receivables of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	At 30 Sept 2008 $'000	At 31 Dec 2007 $'000
Up to 6 months	**59,012**	271,196
Over 6 months to 1 year	**18**	1
Over 1 year to 3 years	**180**	2
Over 3 years	**2,069**	8,651
Total	**61,279**	279,850

The fair value of cash deposits placed by the related trade debtors with the Group was $17,143,000 (31 December 2007: $12,643,000).

(iv) Financial assets that were impaired at the end of the reporting period

As at 30 September 2008, trade receivables of the Group amounting to $167,920,000 (31 December 2007: $4,608,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considers in determining whether the financial assets were impaired were disclosed in the 2007 annual accounts. No cash deposits had been received in relation to the impaired trade receivables (31 December 2007: $Nil).

(v) Outstanding balances from debtors which were not recognised as income

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on the condensed consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. As at 30 September 2008, the amount of doubtful deferred revenue amounted to $37,601,000 (31 December 2007: $48,955,000).

35. Comparative Figures

Certain comparative figures have been adjusted to conform with changes in presentation in the current period.

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Each of the Directors confirmed, following specific enquiry, that he or she fully complied with the Model Code throughout the nine-month period ended on 30 September 2008.

Interests and Short Positions of Directors and Chief Executive

As at 30 September 2008, the interests and short positions of the Directors and the Chief Executive in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long Positions in Shares and Underlying Shares of HKEx

	Number of Shares/Underlying Shares Held					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of the Issued Share Capital (Note 1)
Paul M Y Chow	3,296,356 (Note 2)	–	–	–	3,296,356	0.31
Vincent K H Lee	–	–	275,000 (Note 3)	–	275,000	0.03
John E Strickland	18,000 (Note 4)	–	–	–	18,000	0.00

Notes:

1. It is based on 1,074,873,846 shares of HKEx in issue as at 30 September 2008.
2. It included Mr Chow's interests in 15,728 Awarded Shares and 628 shares further acquired by reinvesting the dividends received therefrom according to the Share Award Scheme. Details of Mr Chow's Awarded Shares are set out in note 25(c) to the condensed consolidated accounts of this quarterly report.
3. This represented Mr Lee's interests in the underlying shares through listed equity derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.
4. Such shares were held by Mr Strickland as beneficial owner.

Save for those disclosed above, as at 30 September 2008, none of the Directors or the Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, HKEx or any body corporate. Save for the disclosed, none of the Directors or the Chief Executive (including their spouses and children under the age of 18) during the nine months ended 30 September 2008 held any interest in, or were granted any right to subscribe for, the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Interests and Short Positions of Other Persons

As at 30 September 2008, the interests and short positions of other persons in the shares and underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
Deutsche Bank Aktiengesellschaft	Beneficial owner	37,808,337	63,193,219 (Note 2)	5.88
	Investment manager	3,161,331		
	Person having a security interest in shares	22,223,551		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 (Note 3)	62,919,500	5.85

Short Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	% of the Issued Share Capital (Note 1)
Deutsche Bank Aktiengesellschaft	Beneficial owner	30,280,488	50,865,765 (Note 4)	4.73
	Person having a security interest in shares	20,585,277		

Notes:

1. It is based on 1,074,873,846 shares of HKEx in issue as at 30 September 2008.
2. It included aggregate interests in 32,098,099 underlying shares through its holding of certain physically settled listed equity derivatives (7,996,100 underlying shares), and cash settled unlisted equity derivatives (24,101,999 underlying shares).
3. This is based on a disclosure of interests filing made by the Government on 10 September 2007 which it stated was voluntary.
4. It included aggregate interests in 21,331,347 underlying shares through its holding of certain physically settled listed equity derivatives (5,078,096 underlying shares), and cash settled unlisted equity derivatives (16,253,251 underlying shares).

Save for those disclosed above, as at 30 September 2008, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller, ie, a person who, either alone or with any associated person or persons, is entitled to exercise, or control the exercise of, five per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the SFC's approval in writing after consultation with the Financial Secretary.

The SFC has only granted approval to five entities to be Minority Controllers, on the basis that the shares are held by them in custody for their clients. According to the CCASS Participants Shareholding Report as at 30 September 2008, the five approved Minority Controllers in aggregate held 53.47 per cent of HKEx's issued share capital (30 September 2007: 62.56 per cent).

The Government has become a Minority Controller of HKEx since 7 September 2007. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Government, and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance, the provisions of Section 61 of the SFO, requiring a person becoming a Minority Controller to obtain the SFC's approval, do not affect the right of and are not binding on the Government.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 2008, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of HKEx's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 214,600 HKEx shares at a total consideration of $32,494,000.

GLOSSARY

AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
Board	Board of HKEx
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of CCASS
CCASS Rules	General Rules of CCASS
CG Code	Code on Corporate Governance Practices
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Director(s)	Director(s) of HKEx
DW(s)	Derivative Warrant(s)
EDS	Electronic Disclosure System
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of Hong Kong
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	The Hong Kong Government
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HDR(s)	Hong Kong Depositary Receipt(s)
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s)
IPO(s)	Initial Public Offering(s)
IT	Information Technology
JP	Justice of the Peace
Listing Rules	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Datafeed System
MH	Medal of Honour
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
Post-Listing Scheme	Post-Listing Share Option Scheme approved by the Shareholders on 31 May 2000 which was subsequently amended by the Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by the Shareholders on 31 May 2000
PRS	Price Reporting System

REIT(s)	Real Estate Investment Trust(s)
SBS	Silver Bauhinia Star
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SMARTS	Securities Markets Automated Research Training & Surveillance
USD	US Dollar
WPIP	Web Proof Information Pack
$/HKD	Hong Kong Dollar

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